COGNOS® - 1998

COGNOS INCORPORATED

This Compliance Document provides information to the shareholders of Cognos Incorporated in advance of its fiscal 1998 Annual Meeting of Shareholders. The documentation consists of:

COGNOS®

A. NOTICE OF MEETING & PROXY STATEMENT

3755 Riverside Drive, P.O. Box 9707, Station T, Ottawa, Ontario, Canada, K1G 4K9

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT the Annual Meeting ("Meeting") of Shareholders of Cognos Incorporated ("Corporation") will be held at the Tudor Reception Hall, 3750 Bowesville Road, Ottawa, Ontario, Canada, on Wednesday, June 24, 1998, at 3:30 p.m., for the following purposes:

1. to receive the consolidated financial statements of the Corporation in accordance with both United States and Canadian generally accepted accounting principles for the fiscal year ended February 28, 1998, and the reports of the auditors thereon,
2. to elect directors for the ensuing year,
3. to appoint auditors and authorize the directors to fix their remuneration, and
4. to transact such other business as may properly come before the meeting and any adjournment thereof.

This Notice is accompanied by a form of proxy; a Proxy Statement; the Annual Report of the Corporation, including financial information in accordance with United States (U.S.) generally accepted accounting principles; and financial information in accordance with Canadian generally accepted accounting principles for the fiscal year ended February 28, 1998. Shareholders of record at the close of business on May 8, 1998, are entitled to receive notice of the Meeting. They may vote at the Meeting unless their shares are transferred and the transferee: (a) produces a certificate(s) representing the transferred shares, or otherwise establishes ownership of the transferred shares, and (b) has demanded in writing, at least ten days before the Meeting, to be included on the list of the Corporation's shareholders entitled to vote at the Meeting.

DATED at Ottawa this 20th day of May 1998.

By Order of the Board of Directors

James M. Tory

James M. Tory
Chairman of the Board

If you cannot attend the meeting in person, please complete, sign, date, and return the enclosed form of proxy in the envelope provided as soon as possible in order to ensure that your shares are represented at the Meeting.

PROXY STATEMENT

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3755 Riverside Drive, Ottawa, Ontario, Canada, K1G 4K9

PROXY STATEMENT

(First mailed to Shareholders on May 20, 1998)

SOLICITATION OF PROXIES

The information contained in this Proxy Statement is furnished in connection with **the solicitation by the Board of Directors and management of Cognos Incorporated** ("Corporation") of proxies to be used at the Annual Meeting of Shareholders ("Meeting") of the Corporation to be held on June 24, 1998, at 3:30 p.m. at the Tudor Reception Hall, 3750 Bowesville Road, Ottawa, Ontario, Canada, or at any adjournment of the Meeting. The solicitation of proxies will be made primarily by mail but proxies may also be solicited directly by officers of the Corporation. The costs of solicitation will be borne by the Corporation.

The specific purposes of the meeting are set out in the Notice of Annual Meeting of Shareholders accompanying this Proxy Statement.

All dollar amounts in this Proxy Statement are in United States dollars unless otherwise stated. Foreign currency amounts have been translated into United States dollars using the appropriate exchange rates for United States currency, as reported by the Bank of Canada.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy ("Proxy Form") are either directors or officers of the Corporation. **Every shareholder has the right to appoint another person (who need not be a shareholder) to represent the shareholder at the Meeting and may do so either by inserting that person's name in the blank space provided in the Proxy Form or by completing another proper form of proxy.** In either case, the completed proxy must be delivered to: (a) the Corporation's transfer agent, Montreal Trust Company, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada, M5J 2N1, in the addressed envelope accompanying this Proxy Statement, or (b) to the Secretary of the Corporation, no later than forty-eight hours preceding the Meeting or any adjournment of the Meeting.

A shareholder who has given a proxy may revoke it either (x) by depositing an instrument in writing, executed personally by that shareholder or under power of attorney, either (i) at the registered office of the Corporation first appearing above at any time up to and including the last business day preceding the date of the Meeting, or any adjournment of the Meeting, at which the proxy is to be used, or (ii) with the chairman of the Meeting on the date of the Meeting, or any adjournment of the Meeting, at which the proxy is to be used, (y) by attending the Meeting in person and personally voting the shares represented by the proxy prior to the exercise of the proxy, or (z) in any other manner permitted by law.

VOTING OF PROXIES

The persons named in the Proxy Form will vote the shares in respect of which they are appointed proxy in accordance with the direction of the shareholder appointing them. In the absence of any

direction, the shares will be voted for the election of directors and for the appointment of auditors as described in this Proxy Statement.

The management of the Corporation knows of no amendment to the matters referred to in the Notice of Meeting or of any other business which will be presented to the Meeting. If any amendment or other business is properly brought before the Meeting, the persons named in the Proxy Form are given discretionary authority to vote on any amendment or on any other business in accordance with their judgment.

SHAREHOLDER PROPOSALS

Proposals by shareholders intended to be presented at the next Annual Meeting of Shareholders, and considered by management, must be received by the Corporation, c/o The Secretary, Cognos Incorporated, 3755 Riverside Drive, P. O. Box 9707, Station T, Ottawa, Ontario, Canada, K1G 4K9, no later than March 31, 1999, for inclusion in the Corporation's Proxy Statement and form of proxy relating to that meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The capital of the Corporation consists of 43,983,927 common shares ("shares") issued and outstanding as of May 8, 1998 ("Record Date").

Only shareholders of record at the close of business on the Record Date are entitled to receive notice of the Meeting. They may vote at the Meeting unless their shares are transferred and the transferee: (a) produces a certificate(s) representing the transferred shares, or otherwise establishes ownership of the transferred shares, and (b) has demanded in writing, at least ten days before the Meeting, to be included on the list of the Corporation's shareholders entitled to vote at the Meeting. Shareholders are entitled to one vote for each share registered in their respective names.

The principal shareholders are set out in the Table appearing in **"SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL HOLDERS".**

Directors will be elected and auditors will be appointed by a majority of shares represented and entitled to vote at the Meeting.

DIRECTORS

Election of Directors

The Articles of the Corporation provide for a Board of Directors ("Board") of not less than three and not more than twelve directors to be elected annually. The number of directors to be elected at the Meeting is six. Each director elected will hold office until the next annual meeting or until a successor is duly elected, or appointed, unless the position is earlier vacated.

The persons named in the Proxy Form will (unless authority to vote is withheld) vote in favor of the election of the six nominees listed below, or if one of those nominees is unable to serve, or for good cause will not serve (an event that the directors have no reason to believe will occur), the persons named in the Proxy Form reserve the right to fix the number of directors at less than six or to vote for a substitute at their discretion.

The following table sets out the name and age of each person nominated for election as a director; the date on which the nominee first became a director of the Corporation; the principal occupation, business or employment of the nominee during the last five years; all other positions with the Corporation (or its significant subsidiaries) now held by the nominee, if any; and the name of any publicly-traded corporation of which the nominee is a director.

Name and Age	**Director Since**	**Principal Occupation During Past Five Years**
Douglas C. Cameron (59) *†	February 10, 1983	Investment Advisor, RBC Dominion Securities Inc., an investment dealer, since October 1993. President, Noranda Enterprise Limited from May 1983 to March 1993. Director of Lumonics Inc. and Simware Inc.
Pierre Y. Ducros (59) †‡	July 9, 1986	Private Investor since June 1996. Chairman and Chief Executive Officer, DMR Group Inc., a computer consulting firm, from 1977 until June 1996. Director of Mpact Immedia Inc. and Atlantis Communication Inc.
Robert W. Korthals (64) ‡	April 9, 1997	Chairman, Co-Steel Inc., a minimill steel production and steel scrap processor, since June 1997. Chairman, North American Life Assurance Company from April 1995 to December 1995. President, The Toronto-Dominion Bank from May 1981 to January 1995. Director of Jannock Limited, Rogers Communications Inc., Rogers Cantel Inc. and Suncor Energy Inc.
Stephen R. Scotchmer (56) *†‡	June 23, 1994	Vice-Chairman of the Board of Directors, Private Investor. Director of Gennum Corporation and Tecsyn International Inc.
James M. Tory, Q.C. (68) *	January 5, 1982	Chairman of the Board of Directors, Chair Emeritus and Counsel, Tory Tory DesLauriers & Binnington, Barristers & Solicitors. Director of Inmet Mining Corporation, Sears Canada Inc., Teck Corporation and Telemedia Inc.
Renato (Ron) Zambonini (51)	June 23, 1994	President and Chief Executive Officer of the Corporation since September 1995. President and Chief Operating Officer from January 1993 to September 1995. Senior Vice President, Product Development and Business Management from December 1992 to January 1993.

* Member of the Corporate Governance Committee.

† Member of the Audit Committee.

‡ Member of the Human Resources & Compensation Committee.

Corporate Governance

Mandate of the Board

The Board's mandate is to supervise the management of the business and affairs of the Corporation and to act with a view to the best interests of the Corporation.

In fulfilling this mandate, the Corporation has established a strategic planning process that directly involves the Board. During each fiscal year, the Board meets with management for the sole purpose of discussing strategic planning, product and business plans, and the risks and opportunities facing the Corporation.

The Board monitors risks that have arisen or may arise in the conduct of the Corporation's business and the adequacy of the systems in place to manage those risks. The Board is regularly informed by senior management on the Corporation's compliance with various legal and financial requirements, and management's assessment of those risks. As well, the Audit Committee has, among its other responsibilities, responsibility for reviewing the Corporation's risk management program, and establishing and monitoring policies regarding the Corporation's internal controls and management information systems. The full mandate of the Audit Committee is described under "*Board Committees*".

The Board participates in the succession planning process through the Human Resources & Compensation Committee which is responsible for systems and policies relating to the appointment, training and monitoring the performance of the Corporation's senior management. The full mandate of the Human Resources & Compensation Committee is described under "*Board Committees*".

Appropriate policies, practices and procedures are in place to communicate with shareholders, customers, employees, governments, regulatory authorities and the public through news releases, the general media, the Corporation's world wide web Internet site (www.cognos.com) and mailings to shareholders. It is management's practice to review press releases regarding the Corporation's quarterly and annual results with the Board and the Audit Committee. Communications with the financial and investment community are the responsibility of the Chief Executive Officer and the Chief Financial Officer, who brief industry analysts on at least a quarterly basis and respond to investor inquiries. Shareholder inquiries are the responsibility of the Secretary. Employee communications are the responsibility of the Corporation's Human Resources Department, which regularly distributes information to employees and organizes quarterly staff meetings. In addition, the Corporation employs personnel to disseminate corporate information to the public in general.

Board Composition

The Board believes that all nominees for director, except Mr. Zambonini, are unrelated and outside directors. In making this determination, the Board examined the factual circumstances of each director and considered them in the context of many factors. The term "unrelated director" means a director who is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests arising from shareholding. An "outside director" is a director who is not an officer (other than Chairman or Vice-Chairman of the Board) or employee of the Corporation or any of its affiliates.

Mr. Cameron is an Investment Advisor with RBC Dominion Securities, a subsidiary of the Royal Bank of Canada, the Corporation's principal banker. From time to time, Mr. Cameron has acted on behalf of various executives and other employees of the Corporation in his capacity as an Investment Advisor. The Board has been apprised by Mr. Cameron of these relationships and is of the view that neither their nature nor the amounts involved are significant.

While the law firm of Tory Tory DesLauriers & Binnington, of which Mr. Tory is Chair Emeritus and Counsel, provides legal services to the Corporation, neither the amount nor dollar value of these services is significant when compared to the overall amount or dollar value of legal services obtained by the Corporation. The Board does not consider that the amount paid to Mr. Tory in respect of additional duties carried out as Chairman of the Board (see *Compensation of Directors*) impairs his status as an unrelated director as that amount is payable in respect of his increased responsibilities in his function as Chairman of the Board.

For the same reasons, the Board is of the view that the additional compensation payable to Mr. Scotchmer in his capacity as Vice Chairman of the Corporation (see *Compensation of Directors*) does not impair his status as unrelated.

Board Meetings

The frequency of meetings of the Board, as well as the nature of agenda items, change depending upon the state of the Corporation's affairs and in light of opportunities or risks that the Corporation faces. Generally, the Board meets following the end of each fiscal quarter of the Corporation. In addition, the Board convenes additional meetings as it deems necessary for the purpose of reviewing, establishing, or monitoring, as the case may be, the Corporation's strategic plans. The Board met six times during the recently completed fiscal year.

Each director attended more than 75% of the total number of meetings of the Board or its committees held during the fiscal year ended February 28, 1998.

Board Committees

The Board has established three standing committees: the Corporate Governance Committee, the Audit Committee, and the Human Resources & Compensation Committee. The Board has adopted written mandates for each committee.

Corporate Governance Committee

The Corporate Governance Committee is responsible for making recommendations to the Board with respect to: (a) all matters relating to the stewardship role of the Board in respect of the management of the Corporation, (b) Board size, composition, and orientation, (c) Board compensation, and (d) procedures necessary to allow the Board to function independently of Management. This committee is also responsible for reporting to the Board with respect to appropriate candidates for nomination to the Board, and for evaluating the performance of the Board. Although this committee did not meet during the recently completed fiscal year, the matters for which it is responsible were undertaken by the Board as a whole. It is currently composed of the following directors, namely: Mr. Tory (Chairman), Mr. Cameron and Mr. Scotchmer. All of the foregoing are unrelated directors.

Audit Committee

The Audit Committee is responsible for supervising the audit of the Corporation's financial records as well as establishing policies and procedures concerning the Corporation's financial reporting, internal accounting, financial controls, management information, and risk management. The committee is responsible for reviewing quarterly financial statements and the annual financial statements prior to their approval by the full Board and therefore meets not less frequently than each fiscal quarter in conjunction with each quarterly Board meeting. The committee meets with the auditors of the Corporation on a regular basis without any members of management present. The Audit Committee met four times during the most recently completed fiscal year. This committee is currently composed of unrelated directors, namely: Mr. Cameron (Chairman), Mr. Ducros and Mr. Scotchmer.

Human Resources & Compensation Committee

The Human Resources & Compensation Committee reviews and recommends to the Board the compensation for, and the Corporation's transactions with, the Chief Executive Officer. It also reviews and approves the compensation for other executive officers based, in part, on the recommendations of the Chief Executive Officer. In addition, the committee reviews and approves long-term incentive programs, significant personnel policies of the Corporation, including: compensation, benefits, and overall compensation policies. The committee met six times during the most recently completed fiscal year. This committee is currently composed of unrelated directors, namely: Mr. Korthals (Chairman), Mr. Ducros and Mr. Scotchmer.

Compensation of Directors

In respect of the fiscal year ended February 28, 1998, directors who were not employees of the Corporation were paid an annual retainer of $4,276 (C$6,000), a per diem fee of $713 (C$1,000) for each Board and Committee meeting attended, as well as travel and out-of-pocket expenses. Directors carrying out duties additional to those normally expected of directors may, with the approval of the Board, be paid at a daily rate of $1,425 (C$2,000), or as otherwise approved by the Board. Directors who are officers of the Corporation receive no additional compensation for acting as directors.

Messrs. Tory and Scotchmer are required to perform activities additional to those normally expected of a Chairman and Vice-Chairman, and are paid additional compensation. Mr. Tory receives an additional payment of $71,270 (C$100,000) annually while Mr. Scotchmer is paid at the rate of $1,425 (C$2,000) per day for additional services performed. During the fiscal year ended February 28, 1998, Mr. Scotchmer was paid, in aggregate, $18,708 (C$26,250) for those activities at that daily rate.

Non-executive directors hold stock options that are currently exercisable or exercisable within 60 days from the Record Date as indicated in the notes to the Table appearing in **"SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL HOLDERS"**. Of that number of optioned shares, 82,500 represent the vested and unexercised portion of a grant of options to Messrs. Tory, Scotchmer, Cameron and Ducros, as a group, on April 12, 1995, and 18,000 represent the vested and unexercised options awarded to those directors as a group, on April 15, 1996. A further 2,500 represent the vested and unexercised portion of a grant of options made to Mr. Korthals on April 23, 1997 following his appointment as a director. An additional 7,500 represent the vested and unexercised portion of a grant of options awarded to Messrs. Tory, Scotchmer, Cameron, Ducros and Korthals, as a group, on October 8, 1997, and 7,500 represent the vested and unexercised portion of a grant of options awarded to those directors as a group, on April 14, 1998. The options to acquire shares under the April 1995 grant have an exercise price of $7.37, and vest equally on the first, second, and third anniversaries of the date of grant, continue as long as the grantee is a director, and expire on the fifth anniversary of the date of grant. The options to acquire shares under the April 1996 grant have an exercise price of $18.85, and vest immediately on the date of grant, continue as long as the grantee is a director, and expire on the seventh anniversary of the date of grant. The options to acquire shares under the April 23, 1997 grant to Mr. Korthals have an exercise price of $22.69, and vest in equal installments on each of the four successive anniversaries of the date of grant, continue as long as the grantee is a director and expire on the eighth anniversary of the date of grant. The options to acquire shares under the October 1997 grant have an exercise price of $24.28, and vest immediately on the date of grant, continue as long as the grantee is a director, and expire on the eighth anniversary of the date of grant. The options to acquire shares under the April 1998 grant have an exercise price of $28.17, and vest immediately on the date of grant, continue as long as the grantee is a director and expire on the eighth anniversary of the date of grant.

All stock options referred to above were awarded under the Stock Option Plans described under "**Human Resources & Compensation Committee Report on Executive Compensation** – *Long-Term Incentives*".

Independence from Management

Mr. Tory is Chairman of the Board. Mr. Zambonini is the President and Chief Executive Officer of the Corporation and serves as a director. The Board may engage outside advisors at the expense of the Corporation in appropriate circumstances. In addition, provision is made in the mandate of the Corporate Governance Committee for its Chair to be either the Chair of the Board, if that person is not also the Chief Executive Officer, or another director, if the Chair and the Chief Executive Officer are the same person. In the view of the Board, this serves to preserve the independence of the Board from management.

Decisions Requiring Board Approval

In addition to those matters which must by law be approved by the Board, management is also required to seek Board approval for any disposition, commitment, venture, or significant expenditure in either monetary or business terms. Changes in senior management are reviewed by the Human Resources & Compensation Committee, and then referred to the Board.

Board Performance

The Board considers complete orientation of new directors to be an important element in effective corporate governance. To that end, all new directors will, in addition to being briefed by the Chairman, receive a complete briefing with respect to the business and operations of the Corporation and the Board, including all regulatory filings. It is the Chairman's responsibility to assess the effectiveness of individual Board members and take such remedial action as is necessary.

Expectations of Management

The Board expects management of the Corporation to effectively manage its business in accordance with the strategic and policy directions approved by the Board. Management is expected to fully inform the Board of its performance in relation to those plans and any events that may effect those plans, and propose to the Board remedial or alternate actions. The Corporate Governance Committee will continue to review the corporate governance practices of the Board and recommend to the Board any changes to them it deems necessary.

Directors' and Officers' Indemnification

The Corporation indemnifies each director and officer of the Corporation against liability resulting from any civil, criminal or administrative action or proceeding to which that person is made a party by reason of being, or having been, a director or officer of the Corporation (including an action by or on behalf of the Corporation), as long as that person (a) acted honestly and in good faith with a view to the best interests of the Corporation, and (b) had reasonable grounds for believing that his or her conduct was lawful in any criminal or administrative proceeding that is enforced by a monetary penalty.

During the year ended February 28, 1998, the Corporation carried directors' and officers' liability insurance coverage with an aggregate policy limit of $14.3 million (C$20 million) with a $5.3 million (C$7.5 million) deductible. The annual premium for this coverage, amounting to $42,495 (C$59,625), was paid by the Corporation.

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL HOLDERS

The following table sets out information, as at May 8, 1998, with respect to (a) all shareholders known by the Corporation to be beneficial owners of more than 5% of its outstanding shares, and (b) share ownership, including the right to acquire shares by exercise of stock options on or before July 7, 1998, by each nominee for director, each executive officer named in the Summary Compensation Table, and all directors and executive officers as a group.

Name	Shares Beneficially Owned	Percentage (1)
Michael U. Potter (2) Sixty-Two John Street, Ottawa, Ontario, Canada, K1M 1M3	7,789,208	17.7%
Private Capital Management, Inc. 3003 Tamiami Trail North, Naples, FLA, U.S.A. 34103	2,758,992	6.3%
Wellington Management Company 75 State Street, Boston, MA, U.S.A. 02109	2,618,742	6.0%
Douglas C. Cameron (3)	26,500	*
Pierre Y. Ducros (4)	30,000	*
Robert W. Korthals (5)	6,500	*
Stephen R. Scotchmer (6)	53,000	*
James M. Tory (7)	73,000	*
Renato Zambonini (8)	243,536	*
Terry Hall (9)	105,309	*
Robert A. Engels (10)	10,002	*
Donnie M. Moore (11)	28,992	*
Alan Rottenberg (12)	31,867	*
Directors and Executive Officers as a group (12 persons) (1) (13)	670,490	1.5%

* Indicates less than 1%

(1) Percentage ownership is calculated using as the denominator total shares outstanding as of the Record Date plus the number of shares which the person, entity, or group indicated has a right to purchase pursuant to options currently exercisable or exercisable within 60 days, or on or before July 7, 1998. Reference to shares that the persons named below have right to acquire through options includes options currently exercisable or exercisable on or before July 7, 1998.

(2) Mr. Potter beneficially owns or controls 7,784,708 shares and has the right to acquire 4,500 shares through options.

(3) Mr. Cameron has the right to acquire 22,500 shares through options.

(4) Mr. Ducros has the right to acquire 30,000 shares through options.

(5) Mr. Korthals has the right to acquire 5,500 shares through options.

(6) Mr. Scotchmer has the right to acquire 30,000 shares through options.

(7) Mr. Tory has the right to acquire 30,000 shares through options.

(8) Mr. Zambonini has the right to acquire 153,500 shares through options.

(9) Mr. Hall has the right to acquire 6,154 shares through options.

(10) Mr. Engels has the right to acquire 10,002 shares through options.

(11) Mr. Moore has the right to acquire 25,000 shares through options.

(12) Mr. Rottenberg has the right to acquire 22,500 shares through options.

(13) The group is comprised of the individuals named in the Summary Compensation Table on page 10, the remaining executive officers of the Corporation, and those persons who were directors of the Corporation on the Record Date. The amount shown includes 380,343 shares which the directors and executive officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock option plans through July 7, 1998.

Statements contained in the table as to securities beneficially owned or controlled by directors, officers, and 5% beneficial owners are, in each instance, based upon information obtained from such directors, officers, and beneficial owners.

EXECUTIVE COMPENSATION

The following Summary Compensation Table sets out the compensation received for each of the last three fiscal years for Mr. Zambonini, the Chief Executive Officer of the Corporation, and those persons who were, at February 28, 1998, the other four most highly compensated executive officers of the Corporation.

Summary Compensation Table
(All dollar amounts are in U.S. dollars)

		Annual Compensation			Long-term Compensation Awards [3]	
Name and Principal Position	Fiscal Year	Salary [1]	Bonus [2]	Other Annual Compensation	Securities Underlying Options/SARs (#)	All Other Compensation [4]
Renato Zambonini [5]	1998	$228,775	$200,902	—	0	—
President and Chief	1997	$220,340	$387,138	—	180,000	—
Executive Officer	1996	$183,287	$243,176	—	90,000	—
Terry Hall	1998	$220,000	$287,194	—	0	$2,791
Senior Vice President,	1997	$210,000	$491,626	—	150,000	$1,438
Worldwide Sales	1996	$200,000	$321,756	—	60,000	$4,073
Robert A. Engels [6]	1998	$208,822	$95,719	—	0	$11,013
Senior Vice President,	1997	$188,775	$114,958	—	75,000	$9,141
European Operations						
Donnie M. Moore [5][7]	1998	$151,804	$83,095	$32,580	0	$3,849
Senior Vice President,	1997	$143,221	$144,711	—	150,000	$4,563
Finance & Administration	1996	$139,298	$73,333	—	45,000	—
and Chief Financial Officer						
Alan Rottenberg [5]	1998	$142,539	$103,127	—	20,000	$3,782
Senior Vice President,	1997	$139,549	$248,281	—	150,000	$3,251
Marketing and Business	1996	$131,967	$100,576	—	67,500	—
Strategy						

(1) Salary is base salary earned for the current year.

(2) Bonuses for each year include amounts earned for that year, even if paid in the subsequent year, and exclude bonuses paid during that year but earned for a prior year.

(3) The named executive officers have not, as of the Record Date, received from the Corporation any grants of restricted shares, or stock appreciation rights ("SAR's"), as compensation.

(4) The amounts in this column pertain to the Corporation's annual contribution to each individual's savings plan. Beginning in fiscal 1997, the Corporation introduced a Retirement Savings Plan (RSP) for the Corporation (excluding its subsidiaries). The Corporation contributes to this plan on behalf of Messrs. Moore and Rottenberg. Cognos Limited (U.K.) contributes to the Cognos Limited Executive Retirement Scheme for Mr. Engels, and Cognos Corporation (U.S.A.) contributes to a 401(k) savings plan for Mr. Hall.

(5) These individuals are employed in Canada and paid in Canadian dollars. The amounts shown in the above table are expressed in U.S. dollars using the following weighted annual exchange rate for the Corporation's fiscal years ending on the last day of February:

1998 — C$1.00	=	US$0.7128
1997 — C$1.00	=	US$0.7345
1996 — C$1.00	=	US$0.7310

(6) Mr. Engels became an executive officer in fiscal 1997. Mr. Engels is employed in Europe and paid in pounds sterling. The amounts shown in the above table are expressed in U.S. dollars using the following weighted annual exchange rate for the Corporation's fiscal years ending on the last day of February:

1998 — UK£1.00	=	US$1.6443
1997 — UK£1.00	=	US$1.5890

(7) Bonus amount includes $61,144 which was contributed on behalf of Mr. Moore to a retirement arrangement. The amount of $32,580 represents a non-recurring payment for settlement of expatriate tax differences with Revenue Canada for tax years 1990–1993.

Option/SAR Grants in Last Fiscal Year
(All dollar amounts are in U.S. dollars)

The following table provides information with respect to stock option grants by the Corporation to the named executive officers for the fiscal year ended February 28, 1998.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2)	
Name	Number of Securities Underlying Options Granted (1)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price per Share	Expiration Date (mm/dd/yy)	5%	10%
Alan Rottenberg (3)	20,000	1.8%	$22.69	4/23/2004	$184,700	$430,500

(1) Option awards are typically made following the release of the Corporation's year-end results. During the course of the year other awards may be granted in special circumstances. In all cases, option awards are approved by the Human Resources & Compensation Committee, the administrator of the Corporation's Stock Option Plans.

(2) These amounts represent the gain that may be realized upon exercise of the options immediately prior to the expiration of their term (net of the option exercise price but before taxes associated with the exercise) assuming the specified compound rates of appreciation (5% and 10%) of the Corporation's shares over the term of the options. These amounts are calculated based on rules promulgated by the United States Securities and Exchange Commission and do not reflect the Corporation's estimate of future stock price increases. Actual gains, if any, on any stock option exercises and resultant shareholdings are dependent on the timing of each exercise and the future share performance. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the individuals.

(3) Mr. Rottenberg is a participant in the executive option award described in "**Human Resources & Compensation Committee Report on Executive Compensation** – *Long-Term Incentives*", as are the special circumstances giving rise to that award.

Aggregated Option Exercises and Fiscal Year-End Option Values
(All dollar amounts are in U.S. dollars)

The following table provides information on stock option exercises in the fiscal year ended February 28, 1998, by the named executive officers and the value of such officers' unexercised options as at February 28, 1998.

Name	Shares Acquired on Exercise (#)	Aggregate Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-The-Money Options at Fiscal Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Renato Zambonini	100,000	$2,776,612	123,500	210,000	$2,515,040	$1,793,400
Terry Hall	19,998	$314,502	–	170,004	–	$1,402,674
Robert A. Engels	39,999	$988,870	–	85,002	–	$701,337
Donnie M. Moore	42,227	$1,039,543	25,000	165,000	$459,500	$1,310,700
Alan Rottenberg	45,000	$702,159	–	192,500	–	$1,509,750

Employment Agreements

The employment agreements of Messrs. Zambonini, Hall, and Moore each provide, among other things, that if their employment is terminated without cause, the Corporation will pay severance in an amount equal to one year's salary at the time of termination. If either of Mr. Zambonini or Mr. Hall is subsequently employed by another party for any portion of the year following termination, the severance payment will be reduced on a pro-rata basis for that portion.

The employment agreements of each of Messrs. Zambonini, Hall, and Moore have been amended in the manner described in the "**Human Resources & Compensation Committee Report on Executive Compensation** – *Long-Term Incentives*."

Certain Transactions

The Corporation was party to a services agreement with a company controlled by Michael U. Potter, a principal holder of the Corporation's shares and former director, for his services as a consultant to the Board and the Corporation. That agreement expired on September 27, 1997. Pursuant to that agreement, fees in the amount of $166,295 (C$233,333) were earned during the period March 1, 1997 to September 27, 1997. Mr. Potter continues to be a principal holder of the Corporation's shares as disclosed in **"SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL HOLDERS"**.

As noted in "**Corporate Governance** – *Compensation of Directors*", the Board has awarded additional compensation to Messrs. Tory and Scotchmer in respect of activities additional to those normally expected of directors.

It is the Corporation's policy that all transactions with related parties must be approved by a majority of the independent and disinterested directors considering a particular transaction and that a transaction be subject to terms no less favorable to the Corporation than can be obtained at arm's length. Messrs. Tory and Scotchmer abstained from voting in respect of any resolutions relating to their additional compensation referred to above.

Human Resources & Compensation Committee Report on Executive Compensation

Mandate of the Human Resources & Compensation Committee

The mandate of the Human Resources & Compensation Committee ("Committee") is set out in "**Corporate Governance** – *Board Committees*". Among other matters, it is responsible for reviewing and approving the compensation for the Chief Executive Officer and the other executive officers of the Corporation. The Corporation's compensation program for executive officers comprises cash compensation and long-term incentive compensation in the form of stock options.

Cash Compensation

Each senior officer is assigned a target cash compensation amount at the beginning of each fiscal year. This amount is based on salary surveys of both similarly-sized software companies and larger software companies, some of which are represented in the Performance Graph on page 15, as well as on job responsibilities and performance. Target cash compensation is allocated between two components: a fixed base salary and a variable bonus target. At the election of the executive officer, the Corporation may contribute to a retirement arrangement in accordance with guidelines established by Revenue Canada.

Base salary is based on the criteria set out above, that is, on market surveys, job responsibilities, and performance.

The bonus target varies with each officer's particular role, responsibilities, and objectives. For each officer, the bonus earned is based primarily on corporate performance, including such measures as revenue growth and return on equity. The balance of the bonus target is apportioned among established objectives that relate to specific business or administrative unit performance. Some of these objectives are solely quantitative while others require subjective judgments to be made regarding performance. At year end, performance is evaluated against these established objectives.

Actual bonus payments are determined primarily by way of a fixed formula based on a combination of the Corporation's revenue growth and return on equity during the fiscal year. This formula is established by the Committee at the commencement of the fiscal year. Other payments are determined by multiplying a particular component of the bonus target by a percentage figure that either measures the attainment of specific quantifiable goals or that results from a subjective assessment of performance against the objective underlying that component. Accordingly, in a given year, an officer may achieve more or less than the established target cash compensation amount depending on corporate and personal performance against these objectives. For the year ended February 28, 1998, individual bonus amounts earned ranged from 84% to 239% of the bonus target primarily due to the Corporation's performance relative to the formula referenced above. The range of total cash compensation earned by all executive officers was from 95% to 149% of their respective individual target cash compensation amounts.

Long-Term Incentives

Long-term incentives are provided through stock options awarded under the 1997–2002 Stock Option Plan ("1997 Option Plan"), which was adopted by the Board on April 9, 1997 and approved by shareholders on June 25, 1997. The 1997 Option Plan succeeded the Corporation's 1993–1998 Stock Option Plan ("1993 Option Plan") from which grants were last authorized and granted in September 1997. No further grants will be made under the 1993 Option Plan. Directors, officers, employees, and consultants of the Corporation are eligible to participate in the 1997 Option Plan. Through the award of stock options, the Corporation seeks to attract, reward, and retain employees by providing them with a means of sharing in the financial success created by their combined efforts. In particular, the award of stock options to executive officers seeks to provide them with an incentive to enhance shareholder value.

Options are granted on the basis of an individual's level of responsibility and potential to contribute to the Corporation's future success.

Options to employees are awarded at the discretion of management and typically vest equally on each of the successive four anniversaries of the date of grant and expire on the eighth anniversary of the date of grant. All options are priced at the market price of the Corporation's shares on The Toronto Stock Exchange on the trading day preceding the date of grant.

On April 15, 1996, the Committee awarded certain key officers of the Corporation and its subsidiaries, including all of its executive officers, options under the 1993 Option Plan subject to terms that the Committee viewed as further aligning key officers' interests with those of shareholders and encouraging the enhancement of shareholder value. The options vest equally on the third, fourth, and fifth anniversaries of the date of grant and expire on the eighth anniversary of that date. The net proceeds (after tax) of any exercise of these options occurring on or before the seventh anniversary of the date of grant will be used to purchase common shares of the Corporation in the name of the executive at prevailing market prices. The shares purchased will be held in trust by the Corporation and released to the executive in equal portions on the first and second anniversaries of purchase.

In addition, the employment agreement of each participant in the foregoing executive option award has been amended to allow the surrender of those option rights if the market price of the optioned shares is less than the option price. Should options be surrendered on this basis, the participant will receive a cash amount based on the participant's annual compensation multiplied by a factor derived from the Corporation's rate of revenue growth and return on equity over the period prior to surrender. The cash amount (after tax) will be used to purchase common shares of the Corporation at prevailing market prices. These shares will be held in trust and released to the executive under the same conditions as shares acquired by option exercise under this award. This feature is intended to provide incentive to acquire share ownership even if market performance of the Corporation's stock is not reflective of its fiscal performance as measured by its rate of revenue growth and return on equity.

Absent special circumstances, participants in the foregoing executive option award are not eligible to receive additional annual option awards until March 1, 1999. However, the Corporation determined that in view of Mr. Rottenberg's new position as Senior Vice President, Marketing and Business Strategy and the importance of the implementation of the Corporation's strategic initiatives to focus and upgrade the Corporation's marketing and business development activities, a special option award was deemed appropriate to provide him with incentive in his new role. He was awarded an option to acquire 20,000 shares under the 1993 Option Plan. The option vests equally on the second, third, and fourth anniversaries of the date of grant and expires on the seventh anniversary of that date. As Mr. Robert Minns, Senior Vice President, New Products, became an executive officer during the fiscal year ended February 28, 1998, he did not participate in the executive option award of April 15, 1996. On April 14, 1998 Mr. Minns was awarded an option to acquire 15,000 shares under the 1997 Option Plan. The option vests equally on the second, third, and fourth anniversaries of the date of grant and expires on the eighth anniversary of that date.

As of the Record Date, options to purchase 3,905,921 shares under the 1997 Option Plan, and predecessor plans, were outstanding at a weighted average exercise price of $19.12.

Chief Executive Officer Compensation

The Chief Executive Officer's ("CEO") compensation is reviewed and recommended to the Board by the Committee. Mr. Zambonini's base salary was set at $228,775, a 7% increase from the previous fiscal year. His bonus target was also increased by 7% from that of the previous fiscal year, to $114,745. His bonus payment is determined using the same formula applicable to other executive officers. That formula is based upon the Corporation's revenue growth and return on equity during the fiscal year. Based on that

formula and the Corporation's performance for the fiscal year, the CEO earned a bonus of $200,902 (175% of bonus target) for the fiscal year ended February 28, 1998.

Mr. Zambonini was not awarded any stock options during the recently completed fiscal year as he is a participant in the executive option award described in "**Human Resources & Compensation Committee Report on Executive Compensation** – *Long-Term Incentives*".

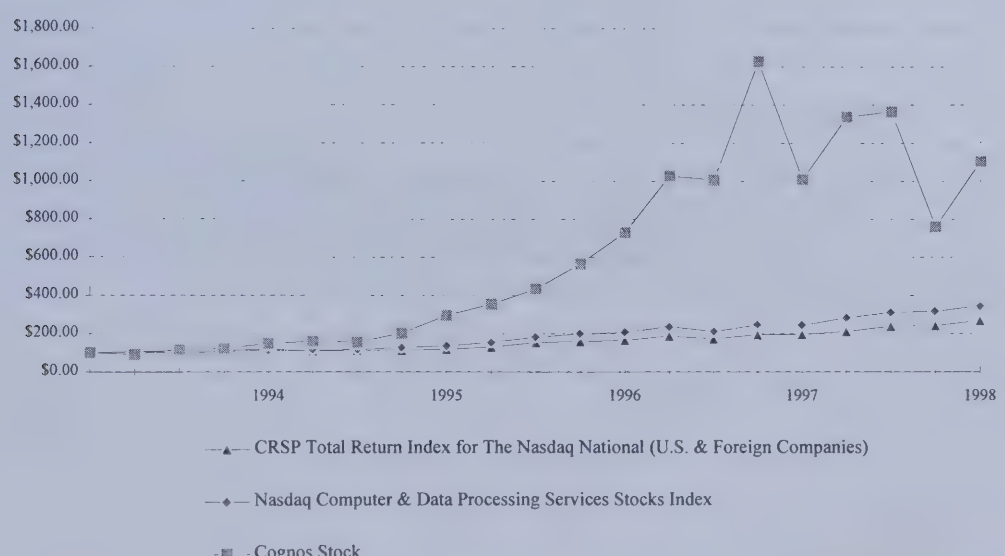
This report has been provided by the Human Resources & Compensation Committee of the Board of Directors.

Robert W. Korthals (Chairman)
Pierre Y. Ducros
Stephen R. Scotchmer

Human Resources & Compensation Committee Interlock and Insider Participation

Messrs. Korthals, Ducros and Scotchmer comprised the Human Resources and Compensation Committee on February 28, 1998. Mr. Korthals was appointed a member and Chairman of the Committee in June 1997. Mr. Ducros was appointed to the Committee in September 1996. Mr. Scotchmer was appointed to the Committee in June 1994 and served as its Chairman until succeeded by Mr. Korthals. Mr. Cameron, a member of the Committee since 1988, resigned his membership in September 1997. Mr. Cameron continues to be Chairman of the Audit Committee. In addition to his fees as a director, Mr. Scotchmer received additional compensation as described in "**Corporate Governance** – *Compensation of Directors*".

Performance Graph



(1) Dollar amounts are in U.S. dollars.

(2) The stock price performance graph is not necessarily indicative of future performance. Information used on the graph was obtained from The Nasdaq National Market, Inc., a source believed to be reliable, but the Corporation is not responsible for any errors or omissions in such information.

The above graph compares the five-year cumulative total return on the Corporation's shares with the comparable cumulative return of a broad equity index and an industry index. The indexes used are the Center for Research in Securities Prices ("CRSP") Total Return Index for The Nasdaq National Market (U.S. and Foreign Companies), and the Nasdaq Computer & Data Processing Services Stocks Index.

The graph assumes US$100 invested on February 28, 1993 in the Corporation's shares and each of the Nasdaq indexes.

APPOINTMENT OF AUDITORS

A resolution will be presented at the Meeting to appoint Ernst & Young as auditors of the Corporation for the fiscal year ending February 28, 1999 and authorize directors to fix their remuneration. Ernst & Young have been auditors of the Corporation since January 1984. The Board recommends a vote in favor of this resolution.

Arrangements have been made for one or more representatives of Ernst & Young to attend the Meeting. These representatives will be accorded the opportunity to address the Meeting and can be expected to respond to appropriate questions.

OTHER MATTERS

The management of the Corporation knows of no amendment or variation of the matters referred to in the Notice of Meeting and of no other business to be brought before the Meeting. However, if any amendment, variation or other business is properly brought before the Meeting, the Proxy Form confers discretionary authority on the persons appointed proxy to vote on any amendment or variation of the matters referred to in the Notice of Annual Meeting or any other business in accordance with their best judgment.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting shareholders by mail through its regular employees, the Corporation may request banks and brokers to solicit their customers who have shares of the Corporation registered in the names of a nominee and, if so, will reimburse such banks and brokers for their reasonable out-of-pocket costs. Solicitation by officers and employees of the Corporation may also be made of some shareholders in person or by mail, telephone or fax following original solicitation.

APPROVAL BY BOARD OF DIRECTORS

The contents and the sending of this Proxy Statement have been approved by the Board of Directors of the Corporation.

DATED at Ottawa this 20th day of May 1998.

James M. Tory
Chairman of the Board

COGNOS

B. FINANCIAL INFORMATION IN ACCORDANCE WITH CANADIAN GAAP FOR THE FISCAL YEAR ENDED FEBRUARY 28, 1998

The consolidated financial information as set out in the Corporation's 1998 Annual Report is in United States (U.S.) dollars and in accordance with U.S. generally accepted accounting principles (GAAP). In keeping with the requirements of Canadian legislation, the Corporation is also providing its shareholders with consolidated financial information in accordance with Canadian GAAP (in United States dollars).

The generally accepted accounting principles in Canada differ in some respects from those applicable in the U.S. The most significant difference in fiscal 1998 arises from the accounting for acquisitions (see Note 5 of the Notes to the Consolidated Financial Statements). All consolidated financial statements were affected by this difference.

COGNOS INCORPORATED

CANADIAN GAAP FINANCIAL INFORMATION

Table of Contents

The information appearing in this document consists of the following information for the fiscal year ended February 28, 1998:

COGNOS INCORPORATED

Management's Discussion and Analysis of Financial Condition and Results of Operations

(in United States dollars, unless otherwise indicated, and in accordance with Canadian GAAP)

The following discussion should be read in conjunction with the audited consolidated financial statements and notes for the fiscal year ended February 28, 1998, beginning on page 34. The Corporation prepares and files its consolidated financial statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in United States (U.S.) dollars and in accordance with Generally Accepted Accounting Principles (GAAP) in Canada. The consolidated financial statements and MD&A in accordance with U.S. GAAP, in U.S. dollars, are also made available to all shareholders and filed with various regulatory authorities.

OVERVIEW

The Corporation develops, markets, and supports complementary lines of software tools that are designed to satisfy enterprise-wide business-critical needs. The Corporation's business intelligence tools give individual users the ability to independently access, explore, analyze, and report corporate data. The Corporation's client/server application development tools are designed to increase the productivity of system analysts and developers. Cognos products are distributed both directly and through resellers worldwide.

Revenue is derived from the licensing of software and the provision of related services, which include product support and training, consulting, and other services. The Corporation generally licenses software and provides services subject to terms and conditions consistent with industry standards. Customers may elect to contract with the Corporation for product support, which includes product and documentation enhancements, as well as telephone support, by paying either an annual fee or fees based on usage of support services.

The Corporation operates internationally, with a substantial portion of its business conducted in foreign currencies. Accordingly, the Corporation's results are affected by year-over-year exchange rate fluctuations of the United States dollar relative to the Canadian dollar, to various European currencies, and to a lesser extent, other foreign currencies.

RESULTS OF OPERATIONS

(in United States dollars, unless otherwise indicated, and in accordance with Canadian GAAP)

Total revenue for the year ended February 28, 1998 (fiscal 1998) was $244.8 million, which was 24% more than fiscal 1997 revenue of $198.2 million, which in turn was 30% higher than the $152.2 million revenue recorded in fiscal 1996. Net income for fiscal 1998 was $48.9 million and basic net income per share was $1.11, compared to net income of $36.8 million and basic net income per share of $0.85 for fiscal 1997. Net income for fiscal 1996 was $17.5 million and basic net income per share was $0.42.

The rate of growth for total revenue was 24% in fiscal 1998 compared to 30% in fiscal 1997. The growth in revenue dollars for both fiscal years was primarily attributable to the licensing, servicing, and supporting of the Corporation's business intelligence tools (see also Revenue).

Total operating expenses increased by 19% in fiscal 1998 from fiscal 1997, and 16% in fiscal 1997 from fiscal 1996. Although operating expenses have increased over the last two fiscal years, they have continued to decrease as a percentage of total revenue. As a result, operating margins were 26% in fiscal 1998, 23% in fiscal 1997, and 13% in fiscal 1996.

The following table sets out, for each fiscal year indicated, the percentage that each income and expense item bears to revenue, and the percentage change in the dollar amount of each item as compared to the prior fiscal year.

	Percentage of Revenue			Percentage Change from Fiscal	
	1998	1997	1996	**1997 to 1998**	1996 to 1997
Revenue	**100.0%**	100.0%	100.0%	**23.5%**	30.2%
Operating expenses					
Cost of product license	**1.5**	1.7	2.3	**17.2**	(4.9)
Cost of product support	**4.0**	4.9	4.9	**0.6**	28.7
Selling, general, and administrative	**58.6**	57.8	65.0	**25.2**	15.9
Research and development	**13.7**	14.6	14.7	**15.8**	29.4
Investment tax credits	**(3.8)**	(1.9)	–	**156.1**	*
Total operating expenses	**74.0**	77.1	86.9	**18.5**	15.6
Operating income	**26.0**	22.9	13.1	**40.4**	127.3
Interest expense	**(0.2)**	(0.2)	(0.3)	**12.7**	(8.8)
Interest income	**2.2**	2.3	2.6	**18.0**	12.6
Income before taxes	**28.0**	25.0	15.4	**38.6**	110.4
Income tax provision	**8.0**	6.4	3.9	**54.5**	111.9
Net income	**20.0%**	18.6%	11.5%	**33.0%**	109.9%

* *not meaningful*

The Corporation had $126.3 million in cash, cash equivalents, and short-term investments as of February 28, 1998, an increase of $7.1 million from February 28, 1997.

Revenue

The Corporation's total revenue (consisting of product license, product support, and services revenue) was $244.8 million in fiscal 1998, compared to $198.2 million in fiscal 1997 and $152.2 million in fiscal

1996. The Corporation operates internationally, with a substantial portion of its business conducted in foreign currencies. Accordingly, the Corporation's results are affected by year-over-year exchange rate fluctuations of the United States dollar relative to the Canadian dollar, to various European currencies, and to a lesser extent, other foreign currencies. The effect of foreign exchange rate fluctuations decreased the overall revenue growth by three percentage points in fiscal 1998 from fiscal 1997 and by one percentage point in fiscal 1997 from fiscal 1996.

Total revenue was 24% higher in fiscal 1998 than 1997, compared to a 30% increase in fiscal 1997 compared to fiscal 1996. The growth in total revenue was 27% and 26% in the first and second quarter of fiscal 1998, respectively, and was 21% in the last two quarters of fiscal 1998 over the respective prior periods in fiscal 1997. The Corporation believes that the slower rate of growth during the last half of fiscal 1998 resulted from a slowing of customers' buying decisions as a result of the changing dynamics in the market. Organizations were reviewing the use of current client/server platforms as well as the potential use of emerging products and platforms, including intranets and the Web, for information delivery. The Corporation believes this review process slowed customers' buying decisions and influenced the level of commitment, or purchase, of particular products that operate on particular platforms.

The Corporation's growth in total revenue was derived primarily from the increase in revenue from the Corporation's business intelligence tools, PowerPlay®, Impromptu®, Scenario™, 4Thought™, and DataMerchant™. Total revenue for these products was $176.2 million, $122.5 million, and $67.8 million in fiscal 1998, 1997, and 1996, respectively. Total revenue from the Corporation's business intelligence tools was 72%, 62%, and 45% of total revenue in fiscal 1998, 1997, and 1996, respectively. The increase in fiscal 1998 total revenue from these tools was partially attributable to the release of five new products during the year, which are described below.

The Corporation believes that its business intelligence tools address the current market environment of client/server networks and the growing need for distributing corporate information to the end-user's desktop. The Corporation also believes that there is an emerging business opportunity for distributing corporate information to the end-user's desktop utilizing the Internet or Web and corporate intranets. During fiscal 1998, the Corporation began to address this emerging market with the release of PowerPlay Server *Web Edition*; Impromptu Web Query, the renamed product acquired as part of the Interweave acquisition*; and the release of DataMerchant, a new product for packaging and distributing relational data over the Web. While the Corporation believes that there is an emerging market opportunity for Web-based decision support products, there can be no assurance of the rate or extent of growth of this market, or that the Corporation will be successful in developing products that will address this market. Also during fiscal 1998, the Corporation released Scenario, a new data mining product, and 4Thought*, business modeling and forecasting software. (* See Acquisitions .)

The revenue increase derived from the business intelligence tools was offset by a net revenue decrease from the Corporation's application development tools, PowerHouse® and Axiant®. Total revenue from these products was $68.6 million in fiscal 1998, compared to $75.7 million in fiscal 1997, and $84.4 million in fiscal 1996. The decline in revenue in this market was generally consistent with the trend that the Corporation has been experiencing over the past four fiscal years and was consistent, in the Corporation's view, with the market trend toward the purchase of packaged applications rather than in-house developed systems and toward industry-standard systems and client/server technology.

The growth in total revenue from the three revenue categories in fiscal 1998 from fiscal 1997 was as follows: a 25% increase in product license revenue, a 14% increase in product support revenue, and a

37% increase in services revenue. This compares to an increase in fiscal 1997 from fiscal 1996 as follows: a 34% increase in product license revenue, a 13% increase in product support revenue, and a 64% increase in services revenue.

The Corporation's operations are divided into three main geographic regions: (1) North America (includes Latin America), (2) Europe (consists of the U.K. and Continental Europe), and (3) Asia/Pacific (consists of Australia and countries in the Asia/Pacific region). In fiscal 1998, total revenue from North America, Europe, and Asia/Pacific increased from fiscal 1997 by 28%, 16%, and 35%, respectively, compared to increases of 32%, 24%, and 26%, respectively, in fiscal 1997 from fiscal 1996. The increase for all regions in both periods was attributable to the increase in revenue from the business intelligence tools. The larger growth in fiscal 1998 compared to the growth in fiscal 1997 in the Asia/Pacific region was the result of the adoption and acceptance of new software technology, as well as the increased availability of product customized by the Corporation for the local markets. (See Note 12 of the Notes to the Consolidated Financial Statements.)

Product License Revenue

Total product license revenue was $126.8 million, $101.6 million, and $76.0 million in fiscal 1998, 1997, and 1996, respectively, and accounted for 52%, 51%, and 50% of the Corporation's revenue for the respective time periods.

The increase in all periods occurred predominantly as a result of the performance of the Corporation's business intelligence tools. Product license revenue from these products was $102.3 million, $74.7 million, and $45.0 million in fiscal 1998, 1997, and 1996, respectively. The Corporation derived approximately 81% of its product license revenue in fiscal 1998 from these tools, compared to 74% in fiscal 1997, and 59% in fiscal 1996. As discussed in the preceding section, the results for fiscal 1998 included product license revenue derived from new products.

Product license revenue from the Corporation's application development tools, PowerHouse and Axiant, was $24.5 million, $26.9 million, and $31.0 million in fiscal 1998, 1997, and 1996, respectively. Although the decline of 9% experienced in fiscal 1998 was less than the 13% decline in fiscal 1997 it was consistent, in the Corporation's view, with the market trend toward the purchase of packaged applications rather than in-house developed systems and toward industry-standard systems and client/server technology. The Corporation expects the trend of decreasing product license revenue from these products to continue.

The Corporation's sales and marketing strategy includes multi-tiered channels ranging from a direct sales force to various forms of third party distributors, resellers, and original equipment manufacturers. In fiscal 1998, the Corporation increased product license revenue derived from third-party channels to $39.6 million from $33.8 million in fiscal 1997, and from $21.1 million in fiscal 1996. Total product license revenue from third-party channels represented 31%, 33%, and 28% of total product license revenue in fiscal 1998, 1997, and 1996, respectively. The increase in product license revenue derived from third parties in fiscal 1998 from fiscal 1997 was mainly attributable to an increase in activity in North America and Asia/Pacific. The increase in fiscal 1997 from fiscal 1996 was attributable to an increase in revenue derived from third parties in both Europe and North America. The decline in fiscal 1998 in product license revenue derived from third-party channels as a percentage of total product license revenue was the result of a relatively larger increase in direct sales.

Within the Corporation's business intelligence market, product license revenue from third-party channels represented 32% of its product license revenue in fiscal 1998, compared to 33% in fiscal 1997, and 27% in fiscal 1996. Product license revenue from third-party channels increased by 35% in fiscal 1998 from 1997, and by 105% in fiscal 1997 from 1996.

The Corporation expects to continue to enhance its combined sales and marketing strategies to further develop the potential within the business intelligence tools market. The Corporation expects to continue to utilize a multi-tiered channel strategy, as outlined above. With respect to the marketing strategy, the Corporation intends to continue to form and enhance alliance programs with system integrators, the larger accounting and consulting firms, packaged application providers, and various other strategic partners. In addition, the Corporation plans to continue to utilize marketing and promotional programs to generate awareness of business intelligence and interest in the Corporation's products.

There can be no assurance that increases in total product license revenue will continue to occur, or occur to the same extent to which they have historically occurred.

Product Support Revenue

Product support revenue was $72.8 million, $63.7 million, and $56.1 million in fiscal 1998, 1997, and 1996, respectively. Product support revenue accounted for 30%, 32%, and 37% of the Corporation's total revenue for the same time periods. The increase in the dollar amounts was the result of the expansion of the Corporation's customer base as well as the renewal of support contracts. To date, expansion of the Corporation's customer base has exceeded both the rate of cancellations of support contracts and the rate of declining license sales in the Corporation's application development tools markets. The decline in product support revenue as a percentage of total revenue was the result of relatively larger increases in services revenue and, to a lesser extent, in license revenue.

Total product support revenue from the business intelligence tools comprised 44%, 31%, and 16% of the total product support revenue in fiscal 1998, 1997, and 1996, respectively. In fiscal 1998, total product support revenue from the business intelligence tools increased by 63% from fiscal 1997, whereas total product support revenue from the application development tools decreased by 7% over the same period. In fiscal 1997, total product support revenue from the business intelligence tools increased by 112% from fiscal 1996, whereas total product support revenue from the application development tools decreased by 6% over the same period.

There can be no assurance that increases in total product support revenue will continue to occur, or occur to the same extent to which they have historically occurred.

Services Revenue

Revenue from training, consulting, and other services was $45.2 million, $32.9 million, and $20.0 million in fiscal 1998, 1997, and 1996, respectively. Services revenue accounted for 18%, 17%, and 13% of the Corporation's total revenue for the same time periods.

The increase in services revenue in both fiscal 1998 and 1997 was predominantly because of a significant increase in training and consulting revenue associated with the business intelligence tools, consistent with the trend in product license revenue in this market. Services revenue associated with the business

intelligence tools contributed approximately 93%, 86%, and 68% to this revenue category in fiscal 1998, 1997, and 1996, respectively.

In fiscal 1998, total services revenue from the business intelligence tools increased by 49% from fiscal 1997, whereas total services revenue from the application development tools decreased by 33% over the same period. In fiscal 1997, total services revenue from the business intelligence tools increased by 108% from fiscal 1996, whereas total services revenue from the application development tools decreased by 27% over the same period.

There can be no assurance that increases in total services revenue will continue to occur, or occur to the same extent to which they have historically occurred.

Cost of Product License

The cost of product license consists primarily of the costs of materials and distribution related to licensed software, as well as royalties for technology licensed from third parties.

Product license costs in fiscal 1998 were $3.8 million compared to $3.3 million in fiscal 1997, and $3.4 million in fiscal 1996. Product license costs represented 3% of product license revenue for fiscal 1998 and fiscal 1997, compared to 5% of product license revenue for fiscal 1996.

The increase in fiscal 1998 from fiscal 1997 was primarily the result of an increase in the manufacturing and distribution costs associated with the increase in new product offerings during the year and, to a lesser extent, an increase in royalties. The decrease in fiscal 1997 from fiscal 1996 was primarily the result of a decline in royalties, which was offset by an increase in manufacturing and distribution costs. The Corporation has maintained the manufacturing and distribution costs, as a percentage of product license revenue, because of the efficiencies of manufacturing and packaging. These costs have also been favorably affected by the mix of products in product license revenue.

Cost of Product Support

The cost of product support includes the costs associated with resolving customer telephone inquiries and other telesupport activities, royalties in respect of technological support received from third parties, and the cost of materials delivered in connection with enhancement releases.

The cost of product support was $9.7 million, $9.6 million, and $7.5 million in fiscal 1998, 1997, and 1996, respectively. These costs represented 13%, 15%, and 13% of product support revenue for fiscal 1998, 1997, and 1996, respectively.

The increase in fiscal 1998 from fiscal 1997 was predominantly because of increases in telesupport costs to support customers and royalties, which were partially offset by decreases in enhancement release costs. The increase in fiscal 1997 from fiscal 1996 was predominantly because of increases in telesupport costs to support customers using the Corporation's business intelligence tools, and to a lesser extent, increases in the volume-related enhancement release costs and royalties.

Selling, General, and Administrative

Selling, general, and administrative expenses were $143.5 million, $114.6 million, and $98.9 million in fiscal 1998, 1997, and 1996, respectively. As a percentage of revenue these costs were 59% in fiscal 1998, 58% in fiscal 1997, and 65% in fiscal 1996. The Corporation has continued, over the past few fiscal years, to review and evolve its internal organizational structures, and sales and marketing strategies in response to changes in its markets in order to maximize the effectiveness and efficiency of its business models.

The increase in the selling, general, and administrative expenses in both fiscal periods was predominantly because of increased staffing and related compensation expenses and, to a lesser extent, subcontracting and marketing costs. Certain infrastructure costs also increased in fiscal 1998. The average number of employees within this area for fiscal 1998 was approximately 15% higher compared to the average for fiscal 1997, while costs per employee increased 9%. The average number of employees within this area for fiscal 1997 was approximately 10% higher than the average for fiscal 1996, while costs per employee increased 5%.

Foreign exchange rate fluctuations reduced the overall percentage increase in fiscal 1998 over 1997 by approximately three percentage points, whereas they had a minimal impact on the change in total selling, general, and administrative costs in fiscal 1997 compared to fiscal 1996.

Research and Development

The following table sets out the components of the Corporation's research and development, as well as the percentages of revenue for the periods indicated.

	1998	1997	1996
		($000s)	
Gross research and development costs	**$33,997**	$26,003	$19,715
Government allowances	**(897)**	(733)	–
Amounts: Capitalized	**–**	–	(862)
Amortized	**430**	3,681	3,529
Research and development	**$33,530**	$28,951	$22,382
Percentage of total revenue			
Gross research and development	**14%**	13%	13%
Research and development	**14%**	15%	15%

Gross research and development costs have continued to increase, in dollar terms, over the last two fiscal years but have remained relatively constant as a percentage of total revenue. The growth was predominantly the result of increases associated with higher staffing levels in this area and other costs associated with the development of the Corporation's product lines to meet various market requirements. The increase in the average number of employees in this area was 23% in fiscal 1998 from fiscal 1997, and was 17% in fiscal 1997 from fiscal 1996. Foreign exchange rate fluctuations reduced the overall increase in fiscal 1998 by approximately three percentage points, whereas they had a minimal impact on

the change in reported research and development in fiscal 1997, compared to the immediately preceding fiscal year.

Software development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Capitalized costs are amortized over a period not exceeding 36 months. Costs were not deferred in either fiscal 1998 and 1997 because either no projects met the criteria for deferral or the period between (i) achieving technological feasibility and (ii) the general availability of the product was short, and the associated costs were immaterial.

As indicated in the preceding discussion on Revenue, the Corporation believes there is an emerging business opportunity for distributing corporate information to the end-user's desktop utilizing the Internet and corporate intranets. During fiscal 1998, the Corporation began to address this emerging market with the release of PowerPlay Server *Web Edition;* Impromptu Web Query, the renamed product acquired as part of the Interweave acquisition; and the release of DataMerchant, a new product for packaging and distributing relational data over the Web. Also during fiscal 1998, the Corporation released PowerPlay 5.0; Impromptu 4.0; Scenario, a new data mining product; and 4Thought, business modeling and forecasting software (see Acquisitions). The Corporation initiated development in fiscal 1998 of Impromptu Web Reports, a new Web-based product that will deploy reports on intranets and extranets.

To support the existing PowerHouse customer base, the Corporation released PowerHouse Power2000™, a new product, early in the first quarter of fiscal 1998. Power2000 was designed to help PowerHouse customers identify and resolve their Year 2000 issues. In addition, the Corporation released PowerHouse 8.0 which provides an upgrade path for existing users of PowerHouse. The Corporation also continued to invest in Axiant during the year. In fiscal 1998, the Corporation ceased further developments of RealObjects™ and redirected the resources and technology to development projects for its business intelligence products.

In fiscal 1999, the Corporation expects to continue its investments in research and development activities for its business intelligence products, especially the Web-enabled versions, as well as Axiant and selected updates to PowerHouse, including a Web extension to PowerHouse.

Acquisitions

During the first quarter ended May 31, 1997, the Corporation completed the acquisition of Right Information Systems Limited (RIS) of London, England. RIS was the provider of 4Thought, business modeling and forecasting software. The shareholders of RIS received $4.5 million and 90,000 shares of the Corporation's common stock, valued at $1.6 million. These shares are being held in escrow by the Corporation until April 9, 2000.

During the third quarter ended November 30, 1997, the Corporation completed the acquisition of Interweave Software, Inc. (Interweave) of Santa Clara, California, U.S.A. Interweave was the developer and marketer of the Interweave software product line, which allows information technology organizations to deploy intranet- and extranet-based business intelligence applications more broadly within and across enterprises. The acquisition agreement called for the Corporation to pay approximately $12.4 million cash to the shareholders of Interweave, most of which was paid upon completion of the

acquisition. Both acquisitions have been accounted for using the purchase method. The results of operations of both acquired companies prior to the acquisitions were not material. The results of both acquired companies have been combined with those of the Corporation since their respective dates of acquisition. (See Note 5 of the Notes to the Consolidated Financial Statements.)

Investment Tax Credits

The Corporation recognized $9.4 million and $3.7 million of investment tax credits in fiscal 1998 and 1997, respectively, related to research and development activities performed in Canada.

Interest Income and Expense

Interest income is earned on the Corporation's cash, cash equivalents, and short-term investments, and interest expense relates primarily to the interest on the Corporation's mortgage and capital leases.

Net interest income was $4.9 million, $4.1 million, and $3.6 million in fiscal 1998, 1997, and 1996, respectively. The increase in both fiscal years was primarily attributable to higher average investment levels, which was offset by a decline in the average interest rates.

Tax Expense

The Corporation's tax rate is affected by the relative profitability of its operations in various geographic regions. In fiscal 1998, the Corporation's effective tax rate was 29%, compared to 26% in fiscal 1997, and 25% in fiscal 1996. (See Note 9 of the Notes to the Consolidated Financial Statements.)

Liquidity and Capital Resources

As of February 28, 1998, the Corporation held $126.3 million in cash, cash equivalents, and short-term investments, an increase of $7.1 million from February 28, 1997. In addition, the Corporation has arranged an unsecured credit facility that includes an operating line and foreign exchange conversion facilities. The operating line permits the Corporation to borrow funds or issue letters of credit or guarantee up to Cdn$15.0 (US$10.5) million, subject to certain covenants. As of February 28, 1998, there were no direct borrowings under this operating line. As discussed further below, the Corporation has foreign exchange conversion facilities that allow it to hold foreign exchange contracts of approximately Cdn$130.0 (US$91.3) million outstanding at any one time.

As of February 28, 1998, the Corporation had a total of $2.5 million of long-term indebtedness (including the current portion of long-term debt), consisting of a mortgage and certain capital leases. As of February 28, 1998, working capital was $112.8 million, an increase of $9.1 million from February 28, 1997, primarily because of higher levels of short-term investments and accounts receivable, which were partially offset by increases in current liabilities. There was an increase in working capital in fiscal 1998 even though the Corporation used $51.0 million for acquisitions and the repurchase of its shares during the year.

Cash provided by operating activities (after changes in non-cash working capital items) for fiscal 1998 was $61.1 million, a $12.3 million increase compared to the prior fiscal year. This improvement was due primarily to the year-over-year increase in net income.

Cash used in investing activities was $53.9 million for fiscal 1998, an increase in spending of $38.6 million compared to the prior fiscal year. This increase was on account of the acquisition costs related to the purchase of RIS and Interweave, and the higher level of investing in short-term financial instruments (net of maturities) in the fiscal year.

Cash used in financing activities was $17.4 million for fiscal 1998, compared to a generation of $0.4 million in fiscal 1997. During fiscal 1998, the Corporation repurchased 1,270,000 shares in the open market at a cost of $29.1 million. The Corporation issued 1,695,000 common shares, for consideration of $9.3 million, pursuant to the Corporation's stock purchase plan and the exercise of stock options by employees, officers, and directors. The Corporation also issued, in a private placement, 90,000 shares for a value of $1.6 million, in conjunction with the acquisition of RIS. (See Note 5 of the Notes to the Consolidated Financial Statements.) The share repurchases that were made in fiscal 1998 were part of two distinct open market share repurchase programs through the Nasdaq National Market: the July 1996 program that was in effect until July 30, 1997 and a similar program which was announced in October 1997. A copy of the *Notice of Intention to Make an Issuer Bid* is available from the Corporate Secretary. (See Note 10 of the Notes to the Consolidated Financial Statements.)

The Corporation's policy with respect to foreign currency exposure is to manage its financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. To achieve this objective, the Corporation enters into foreign exchange forward contracts to hedge certain non-local currency receivables and payables, and to hedge portions of the net investment in its various subsidiaries. The Corporation enters into these foreign exchange forward contracts with major Canadian chartered banks, and therefore does not anticipate non-performance by these counterparties. The amount of the exposure on account of any non-performance is restricted to the unrealized gains in such contracts. As of February 28, 1998, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 26, 1998 to April 30, 1998, to exchange various foreign currencies in the amount of $2.2 million.

The Corporation has never declared or paid any cash dividends on its common shares. The Corporation's current policy is to retain its earnings to finance expansion and to develop, license, and acquire new software products, and to otherwise reinvest in the Corporation.

The Corporation anticipates that through fiscal 1999 its operations will be financed by current cash balances and funds from operations. If the Corporation were to require funds in excess of its current cash position to finance its longer-term operations, the Corporation would expect to obtain such funds from, one or a combination of, the expansion of its existing credit facilities, or from public or private sales of equity or debt securities.

Inflation has not had a significant impact on the Corporation's results of operations.

YEAR 2000 COMPLIANCE

Many computer-based systems experience problems handling dates beyond the year 1999. Therefore, some computer hardware and software will need to be modified in order to correctly process such dates.

The Corporation is addressing this Year 2000 issue with respect to its products and its internal processes and systems.

With respect to the software products that it develops and distributes to end-users and third parties, the Corporation is testing its software products and anticipates that any necessary modifications will be completed in calendar 1999. The Corporation believes the current versions of the software developed by the Corporation are Year 2000 compliant. However, some non-current versions of the Corporation's older software products may not be Year 2000 compliant. In addition, customers that purchase support from the Corporation are provided with upgrades to the latest product versions. The Corporation has developed and licenses software to aid customers in identifying Year 2000 issues in applications derived from non-current versions of the Corporation's PowerHouse application development software. The Corporation will undertake reasonable efforts to contact its customers and notify them of the compliance status of the software they have licensed.

The Corporation will contact its suppliers, distributors, and resellers with a view to obtaining assurances that their business operations and the products they provide in conjunction with the Corporation's software are Year 2000 compliant. There can be no assurance that the products of such suppliers, distributors, and resellers will be Year 2000 compliant. Furthermore, as the Corporation's software processes data from other sources, there can be no assurance that such data will be Year 2000 compliant.

With respect to the Corporation's internal processes and systems, the Corporation has identified internal hardware and software systems that may be affected by the Year 2000. The Corporation's financial application systems are the most significant internal systems that are not Year 2000 compliant. The Corporation intends to upgrade in the fall of calendar 1998 to a version which it believes to be Year 2000 compliant. As well, the Corporation plans to, where appropriate, replace or make the required changes to its other internally developed and purchased software, and to test the changes during calendar 1998 and 1999. The Corporation is also in the process of communicating with its suppliers and others with which it does business to identify their Year 2000 compliance timetable. However, there can be no guarantee that the systems of other companies on which the Corporation's business relies will be converted in a timely manner, or that a failure to convert by another company, or a conversion that is incompatible with the Corporation's systems, will not have a material adverse effect on the Corporation.

The Corporation will utilize both internal and external resources to modify, replace, and test its software for Year 2000 modifications. Although the Corporation has not yet fully assessed the incremental costs relating to Year 2000 compliance issues, it believes that these costs will not have a material adverse effect on its business, results of operations, or financial condition. The costs associated with modifying the Corporation's products and existing internal-use computer software will be expensed as incurred.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain statements made in this report by the Corporation, including statements relating to the Corporation's expectations concerning future revenues and earnings from the licensing of its business intelligence and application development tools and relating to the sufficiency of capital to meet working capital and capital expenditure requirements constitute forward-looking statements, subject to risks and uncertainties that may cause future results to differ materially from those expected. Factors that may cause such differences include, but are not limited to, the factors discussed below.

Revenue

Although the Corporation has experienced significant license revenue growth with respect to its business intelligence tools over the past three fiscal years, there can be no assurance that the rate or extent of such growth will continue in the future. In addition, the Corporation has been experiencing a decline in product license revenue from its application development tools over the past several years. The Corporation expects this trend toward declining revenues in its more established proprietary markets for application development tools to continue.

Fluctuations in Quarterly Financial Results

The Corporation's quarterly and annual operating results are affected by a wide variety of factors that could materially adversely affect revenues and profitability, including the Corporation's ability to introduce new products and technologies on a timely basis, the introduction of products and technologies by the Corporation's competitors, market acceptance of the Corporation's and its competitors' products, competitive pressures on selling prices, the timing of investments in research and development, the length of the procurement cycle by customers, the size of purchase commitments, the timing and cancellation of customer orders, the timing and provision of pricing protections and exchanges from certain distributors, and changes in product mix. As a result of the foregoing and other factors, the Corporation may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect its business, financial condition, operating results, and stock price. The Corporation typically realizes a larger percentage of its annual revenue and earnings in the fourth quarter of a fiscal year, and lower revenue and earnings in the first quarter of the following fiscal year.

Technological Change

The market for the Corporation's products is characterized by rapid and significant technological change. The development of new technologies, commercialization of those technologies into products, and market acceptance and customer demand for those products are critical to the Corporation's success. Successful product development and introduction depend upon a number of factors, including new product selection, timely and efficient completion of product design, product performance at customer locations, and development of products by competitors. There can be no assurance that the Corporation's products will remain competitive or respond to market demands and conditions or not become obsolete. In particular, there can be no assurance that the Corporation has developed the appropriate products to respond effectively to the growing market interest in Web-based software, or if so, whether the Corporation can bring those products to market in a timely fashion and distribute those products in the face of competition from similar products developed by existing or new competitors.

Reliance on Partners and Other Distribution Channels

The Corporation's sales and marketing strategy includes multi-tiered channels ranging from a direct sales force to various forms of third party distributors, resellers, and original equipment manufacturers. The Corporation has developed a number of these relationships and intends to continue to develop new channel partner relationships. The Corporation's inability to attract important and effective channel partners, or their inability to penetrate their respective market segments, or the loss of any of the

Corporation's channel partners, as a result of competitive products offered by other companies or products developed internally by these channel partners or otherwise, could materially adversely affect the Corporation's business, results of operations, and financial condition.

Intellectual Property

The Corporation relies on certain intellectual property protections to preserve its intellectual property rights. Any invalidation of the Corporation's intellectual property rights or lengthy and expensive defense of those rights could have a material adverse affect on the Corporation. Certain technologies used by the Corporation's products are licensed from third parties, generally on a non-exclusive basis. The termination of such licenses, or the failure of the third-party licensors to adequately maintain or update their products, could result in delay in the Corporation's ability to ship certain of its products while it seeks to implement technology offered by alternative sources, and any required replacement licenses could prove costly. While it may be necessary or desirable in the future to obtain other licenses relating to one or more of the Corporation's products or relating to current or future technologies, there can be no assurance that the Corporation will be able to do so on commercially reasonable terms or at all.

Competitors

The Corporation faces substantial competition throughout the world, primarily from software companies located in the United States, Europe, and Canada. Some of the Corporation's competitors have substantially greater financial and other resources with which to pursue research and development, manufacturing, marketing, and distribution of their products. The Corporation expects its current competitors and potentially new competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved cost of ownership and performance characteristics. New product introductions by the Corporation's competitors could cause a decline in sales or loss of market acceptance of the Corporation's existing products.

International Operations

The Corporation derives a significant portion of its total revenues from international sales. International sales are subject to significant risks including unexpected changes in legal and regulatory requirements and policy changes affecting the Corporation's markets; changes in tariffs, currency exchange rates and other barriers; political and economic instability; difficulties in accounts receivable collection; difficulties in managing distributors and representatives; difficulties in staffing and managing foreign operations; difficulties in protecting the Corporation's intellectual property; and potentially adverse tax consequences.

Dependence on Key Personnel

The Corporation's performance is substantially dependent on the performance of its key technical and senior management personnel. The loss of the services of any of such personnel could have a material adverse effect on the business, results of operations, and financial condition of the Corporation. The Corporation's success is highly dependent on its continuing ability to identify, hire, train, motivate, and retain highly qualified management, technical, and sales and marketing personnel. Competition for such

personnel is intense, and there can be no assurance the Corporation will be able to attract, assimilate or retain highly qualified technical and managerial personnel in the future. The inability to attract and retain the necessary management, technical, and sales and marketing personnel could have a material adverse effect on the Corporation's business, results of operations, and financial condition.

Risks Associated with Recent and Possible Acquisitions

The Corporation has recently completed the acquisitions of Right Information Systems Limited and Interweave Software, Inc. and may in turn engage in selective acquisitions of other products or businesses that are complementary to those of the Corporation. There can be no assurance that the Corporation will be able to identify additional suitable acquisition candidates available for sale at reasonable prices, consummate any acquisition, or successfully integrate any acquired product or business into the Corporation's operations. Further, acquisitions may involve a number of special risks, including diversion of Management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities, and write-off and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the Corporation's business, results of operations, and financial condition. Problems with an acquired business could have a material adverse effect on the performance of Corporation as a whole. If the Corporation proceeds with an acquisition, the Corporation's available cash may be used to complete the transaction, or shares may be issued which could cause a dilution to existing shareholders.

Possible Volatility of Stock Price

The market price of the Corporation's common shares may be volatile and could be subject to wide fluctuations in response to variations in results of operations, announcements of technological innovations or new products by the Corporation or its competitors, changes in financial estimates by securities analysts, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of the Corporation's operating results in a particular quarter to meet market expectations may adversely affect the market price of the common shares of the Corporation.

QUARTERLY RESULTS

The following table sets out selected unaudited consolidated financial information for each quarter in fiscal 1997 and fiscal 1998.

	Fiscal 1997				Fiscal 1998			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	($000s, except per share amounts, Canadian GAAP)							
Revenue	$42,508	$46,109	$51,287	$58,281	$54,016	$58,043	$62,048	$70,727
Operating expenses								
Cost of product license	729	828	815	894	821	938	1,028	1,041
Cost of product support	2,487	2,327	2,377	2,443	2,290	2,320	2,382	2,702
Selling, general, and administrative	26,960	27,024	29,071	31,562	32,811	34,049	37,029	39,604
Research and development	6,262	6,817	8,013	7,859	7,750	7,929	8,593	9,258
Investment tax credits	–	–	(2,013)	(1,670)	(1,168)	(2,108)	(1,813)	(4,343)
Total operating expenses	36,438	36,996	38,263	41,088	42,504	43,128	47,219	48,262
Operating income	$ 6,070	$ 9,113	$13,024	$17,193	$11,512	$14,915	$14,829	$22,465
Net income	$ 5,207	$ 7,515	$10,806	$13,261	$ 8,751	$10,760	$13,317	$16,114
Net income per share								
Basic	$0.12	$0.17	$0.25	$0.30	$0.20	$0.24	$0.30	$0.36
Fully diluted	$0.12	$0.17	$0.24	$0.29	$0.20	$0.24	$0.29	$0.35

The Corporation's sales cycle typically ranges from a few days up to twelve months, depending on factors such as the size of the transaction, the product involved, the length of the customer relationship, the timing of new product introductions by the Corporation and others, the level of sales management activity, and general economic conditions. Delays in closing product licensing transactions at or near the end of any quarter may have a materially adverse effect on the financial results for that quarter. While the Corporation takes steps to minimize the impact of such delays, there can be no assurance that such delays will not occur. See Certain Factors That May Affect Future Results.

COGNOS INCORPORATED

REPORT OF MANAGEMENT

The Corporation's management is responsible for preparing the accompanying consolidated financial statements in conformity with accounting principles generally accepted in Canada. In preparing these consolidated financial statements, management selects appropriate accounting policies and uses its judgment and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial data included throughout this Annual Report is prepared on a basis consistent with that of the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded and that transactions are executed and recorded in accordance with the Corporation's policies for doing business. This system is supported by written policies and procedures for key business activities; the hiring of qualified, competent staff; and by a continuous planning and monitoring program.

Ernst & Young has been engaged by the Corporation's shareholders to audit the consolidated financial statements. During the course of their audit, Ernst & Young reviewed the Corporation's system of internal controls to the extent necessary to render their opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee; all members are outside Directors. The Committee meets four times annually to review audited and unaudited financial information prior to its public release. The Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors. Ernst & Young has full and free access to the Audit Committee.

Management acknowledges its responsibility to provide financial information that is representative of the Corporation's operations, is consistent and reliable, and is relevant for the informed evaluation of the Corporation's activities.

James M. Tory
Chairman

Ron Zambonini
President and
Chief Executive Officer

Donnie M. Moore
Senior Vice President,
Finance & Administration, and
Chief Financial Officer

March 31, 1998

COGNOS INCORPORATED

AUDITORS' REPORT

To the Board of Directors and Shareholders of Cognos Incorporated:

We have audited the consolidated balance sheets of Cognos Incorporated as at February 28, 1998 and February 28, 1997 and the consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at February 28, 1998 and February 28, 1997, and the results of its operations and the changes in its financial position for each of the years in the three-year period ended February 28, 1998, in accordance with accounting principles generally accepted in Canada.

Ernst + Young

Ottawa, Canada
March 31, 1998

Ernst & Young
Chartered Accountants

COGNOS INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME

(US$000s except share amounts, CDN GAAP)

	Years Ended the Last Day of February		
	1998	1997	1996
Revenue			
Product license	**$126,820**	$101,575	$ 75,996
Product support	**72,832**	63,681	56,146
Services	**45,182**	32,929	20,044
Total revenue	**244,834**	198,185	152,186
Operating expenses			
Cost of product license	**3,828**	3,266	3,433
Cost of product support	**9,694**	9,634	7,488
Selling, general, and administrative 140 882	**143,493**	114,617	98,908
Research and development	**33,530**	28,951	22,382
Investment tax credits	**(9,432)**	(3,683)	–
Total operating expenses	**181,113**	152,785	132,211
Operating income	**63,721**	45,400	19,975
Interest expense (Note 6)	**(481)**	(427)	(468)
Interest income	**5,340**	4,524	4,019
Income before taxes	**68,580**	49,497	23,526
Income tax provision (Note 9)	**19,638**	12,708	5,996
Net income	**$ 48,942**	$ 36,789	$ 17,530
Net income per share (Note 10)			
Basic	**$1.11**	$0.85	$0.42
Fully diluted	**$1.08**	$0.82	$0.41
Weighted average number of shares (000s) (Note 10)			
Basic	**44,207**	43,149	41,289
Fully diluted	**48,041**	47,695	45,213

(See accompanying notes)

COGNOS INCORPORATED

CONSOLIDATED BALANCE SHEETS

(US$000s, CDN GAAP)

	February 28, 1998	February 28, 1997
Assets		
Current assets		
Cash and cash equivalents	**$ 89,614**	$101,153
Short-term investments	**36,712**	18,075
Accounts receivable (Note 2)	**63,494**	47,029
Inventory	**578**	697
Prepaid expenses	**3,774**	2,863
	194,172	169,817
Fixed assets (Note 3)	**20,507**	18,836
Intangible assets (Note 4)	**31,039**	499
	$245,718	$189,152
Liabilities		
Current liabilities		
Accounts payable	**$ 15,753**	$ 12,754
Accrued charges	**9,676**	5,025
Salaries, commissions, and related items	**14,066**	11,311
Income taxes payable	**1,688**	4,351
Current portion of long-term debt (Note 6)	**124**	175
Deferred product support revenue	**40,019**	32,474
	81,326	66,090
Long-term debt (Note 6)	**2,333**	2,480
Deferred income taxes (Note 9)	**14,754**	4,670
	98,413	73,240
Commitments and Contingencies (Notes 7 and 13)		
Stockholders' Equity (Note 10)		
Capital stock		
Common shares		
(1998 - 44,104,058; 1997 - 43,589,119)	**85,718**	74,739
Retained earnings	**68,339**	46,122
Cumulative translation adjustment	**(6,752)**	(4,949)
	147,305	115,912
	$245,718	$189,152

(See accompanying notes)

On behalf of the Board:

Douglas C. Cameron, Director

James M. Tory, Chairman

COGNOS INCORPORATED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(US$000s except share amounts, CDN GAAP)

	Common Stock		Retained	Cumulative Translation	
	Shares (000s)	Amount	Earnings	Adjustment	Total
Balances,					
February 28, 1995	40,331	$63,103	$ (1,890)	$(6,057)	$ 55,156
Issuance of stock					
Stock option plans	1,882	4,467			4,467
Stock purchase plans	48	321			321
Net income			17,530		17,530
Foreign currency translation adjustments				823	823
Balances,					
February 29, 1996	42,261	$67,891	$ 15,640	$(5,234)	$ 78,297
Issuance of stock					
Stock option plans	1,590	5,492			5,492
Stock purchase plans	30	519			519
Repurchase of shares	(292)	(489)	(6,307)		(6,796)
Income tax effect related to stock options		1,326			1,326
Net income			36,789		36,789
Foreign currency translation adjustments				285	285
Balances,					
February 28, 1997	43,589	$74,739	$ 46,122	$(4,949)	$115,912
Issuance of stock					
Stock option plans	**1,658**	**8,557**			**8,557**
Stock purchase plans	**37**	**776**			**776**
Business acquisitions	**90**	**1,607**			**1,607**
Repurchase of shares	**(1,270)**	**(2,386)**	**(26,725)**		**(29,111)**
Income tax effect related to stock options		**2,425**			**2,425**
Net income			**48,942**		**48,942**
Foreign currency translation adjustments				**(1,803)**	**(1,803)**
Balances,					
February 28, 1998	**44,104**	**$85,718**	**$ 68,339**	**$(6,752)**	**$147,305**

(See accompanying notes)

COGNOS INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US$000s, CDN GAAP)

	Years Ended the Last Day of February		
	1998	1997	1996
Cash provided by (used in) operating activities			
Net income	**$ 48,942**	$ 36,789	$ 17,530
Non-cash items			
Depreciation and amortization	**12,367**	10,058	8,675
Deferred income taxes	**(370)**	(291)	3,457
Loss on disposal of fixed assets	**403**	298	591
	61,342	46,854	30,253
Change in non-cash working capital			
Increase in accounts receivable	**(17,374)**	(10,799)	(7,151)
Decrease (increase) in inventory	**91**	235	(233)
Decrease (increase) in prepaid expenses	**(993)**	345	(457)
Increase in accounts payable	**4,339**	2,866	1,035
Increase (decrease) in accrued charges	**4,974**	1,106	(1,100)
Increase in salaries, commissions, and related items	**3,100**	1,958	1,856
Increase (decrease) in income taxes payable	**(2,603)**	2,352	403
Increase in deferred product support revenue	**8,208**	3,853	3,202
	61,084	48,770	27,808
Cash provided by (used in) investing activities			
Maturity of short-term investments	**131,340**	162,812	107,861
Purchase of short-term investments	**(151,141)**	(168,592)	(98,433)
Acquisition costs	**(21,880)**	–	–
Additions to fixed assets	**(12,302)**	(9,696)	(6,857)
Proceeds from the sale of fixed assets	**45**	126	64
Deferred software development costs	**–**	–	(862)
	(53,938)	(15,350)	1,773
Cash provided by (used in) financing activities			
Issue of common shares (net)	**11,758**	7,337	4,788
Repurchase of shares	**(29,111)**	(6,796)	–
Repayment of long-term debt	**(92)**	(102)	(126)
	(17,445)	439	4,662
Effect of exchange rate changes on cash	**(1,240)**	(36)	170
Net increase (decrease) in cash and cash equivalents	**(11,539)**	33,823	34,413
Cash and cash equivalents, beginning of period	**101,153**	67,330	32,917
Cash and cash equivalents, end of period	**89,614**	101,153	67,330
Short-term investments, end of period	**36,712**	18,075	12,051
Cash, cash equivalents, and short-term investments, end of period	**$126,326**	$119,228	$ 79,381

(See accompanying notes)

COGNOS INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements have been prepared by the Corporation in United States (U.S.) dollars and in accordance with generally accepted accounting principles (GAAP) in Canada, applied on a consistent basis.

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. In the opinion of Management, these consolidated financial statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could differ from these estimates.

The consolidated financial statements in accordance with U.S. GAAP, in U.S. dollars, are made available to all shareholders, and filed with various regulatory authorities.

All information is presented in U.S. dollars, unless otherwise stated.

Basis of Consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries. All but two of the subsidiaries are wholly owned. Intercompany transactions and balances have been eliminated.

Foreign Currency Translation

The financial statements of the parent company and its non-U.S. subsidiaries have been translated into U.S. dollars in accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook, Section 1650, *Foreign Currency Translation*. All balance sheet amounts have been translated using the exchange rates in effect at the applicable year end. Income statement amounts have been translated using the weighted average exchange rate for the applicable year. The gains and losses resulting from the changes in exchange rates from year to year have been reported as a separate component of Stockholders' Equity. Currency transaction gains or losses are immaterial for all periods presented.

Revenue

Substantially all of the Corporation's product license revenue is earned from licenses of off-the-shelf software requiring no customization. Revenue from these licenses is recognized upon delivery of the software if collectibility is probable. If the Corporation's obligations after delivery of the software are significant, then no revenue is recognized until those obligations become insignificant or are fulfilled.

Revenue from product support contracts is recognized ratably over the life of the contract. Incremental costs directly attributable to the acquisition of product support contracts are deferred and expensed in the period the related revenue is recognized.

Revenue from training, consulting, and other services is recognized at the time such services are rendered.

In October 1997, the American Institute of Certified Public Accountants issued a new Statement of Position (SOP) on Software Revenue Recognition that supersedes an existing Statement of Position. The SOP is effective for transactions for fiscal years beginning after December 15, 1997. Retroactive application is prohibited. The Corporation will adopt the new standards prospectively in its first quarter ended May 31, 1998. The Corporation does not expect the adoption of the SOP to have a material impact on its results of operations or financial position.

Cash, Cash Equivalents, and Short-Term Investments

Cash includes cash equivalents, which are investments that are generally held to maturity and have terms of three months or less at the time of acquisition. Cash equivalents typically consist of commercial paper, term deposits, banker's acceptances and bearer deposit notes issued by major North American banks, and corporate debt. The carrying amounts of cash and cash equivalents are stated at fair value, which approximates their cost.

Short-term investments are investments that are generally held to maturity and have terms greater than three months at the time of acquisition. Short-term investments typically consist of commercial paper, Government of Canada Treasury Bills, and banker's acceptances. Short-term investments are carried at fair value, which approximates their cost.

Inventories

Inventories are comprised principally of finished goods and are stated at the lower of cost, on an average cost basis, or net realizable value.

Fixed Assets

Fixed assets are recorded at cost. Office furniture is depreciated using the diminishing balance method. Computer equipment and software, and the building, are depreciated using the straight line method. Leasehold improvements are amortized using the straight line method over either the life of the improvement or the term of the lease, whichever is shorter. Other assets are depreciated using either the diminishing balance method or the straight line method, depending upon the asset category.

Assets leased on terms that transfer substantially all of the benefits and risks of ownership to the Corporation are accounted for as capital leases, as though the asset had been purchased and a liability incurred. All other leases are accounted for as operating leases.

Intangible Assets

Intangible assets represents (i) goodwill associated with various acquisitions, (ii) purchased technology associated with various acquisitions, and (iii) deferred software development costs.
Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value of the tangible and intangible net assets acquired. Goodwill is amortized over five years on a straight line basis. The Corporation evaluates the expected future net cash flows of the acquired businesses at each reporting date and adjusts goodwill for any impairment.

Purchased technology represents the fair value of the acquired research and development technology associated with various acquisitions. Purchased technology is amortized over five years on a straight-line basis.

Software development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Research costs are expensed as incurred. For costs that are capitalized, the amortization is the greater of the amount calculated using either (i) the ratio that the appropriate product's current gross revenues bear to the total of current and anticipated future gross revenues for that product, or (ii) the straight line method over the remaining economic life of the product. Such amortization is recorded over a period not exceeding three years. The Corporation reassesses whether it has met the relevant criteria for continued deferral and amortization at each reporting date.

Income Taxes

In December 1997, the CICA released a new handbook section on Income Taxes, Section 3465, which was adopted by the Corporation in fiscal 1998. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using the tax rates and laws that are expected to be in effect when the differences reverse.

2. ACCOUNTS RECEIVABLE

Accounts receivable include an allowance for doubtful accounts of $3,707,000 and $3,026,000 as of February 28, 1998 and February 28, 1997, respectively.

3. FIXED ASSETS ($000S)

	1998		1997		
	Cost	**Accumulated Depreciation and Amortization**	Cost	Accumulated Depreciation and Amortization	Depreciation/ Amortization Rate
Computer equipment and software	**$ 37,210**	**$26,116**	$ 33,160	$22,142	33%
Office furniture	**13,422**	**8,292**	11,615	7,690	20%
Leasehold improvements	**4,052**	**2,122**	3,360	1,971	Lease Term
Land	**230**	–	239	–	–
Building	**2,703**	**870**	2,816	836	2.5%
Other assets	**808**	**518**	663	378	20% - 33%
	58,425	**$37,918**	51,853	$33,017	
	(37,918)		(33,017)		
Net book value	**$ 20,507**		$ 18,836		

Depreciation and amortization of fixed assets was $8,766,000, $6,377,000, and $5,146,000 in each of fiscal 1998, 1997, and 1996, respectively.

4. INTANGIBLE ASSETS ($000S)

	1998	1997
Goodwill associated with business acquisitions (net)	**$ 4,929**	$ –
Purchased technology (net)	**26,055**	–
Deferred software development costs (net)	**55**	499
	$31,039	$499

The Corporation recorded $5,487,000 of goodwill and $558,000 of corresponding amortization during fiscal 1998.

The Corporation recorded $29,010,000 of purchased technology and $2,955,000 of corresponding amortization during fiscal 1998.

The Corporation capitalized $0 of software development costs in each of fiscal 1998 and fiscal 1997, and $862,000 in fiscal 1996, and recorded $430,000, $3,681,000, and $3,529,000 of corresponding amortization, respectively.

5. ACQUISITIONS

On April 9, 1997, the Corporation completed the acquisition of Right Information Systems Limited (RIS) of London, England. RIS was the provider of 4Thought, business modeling and forecasting software. The shareholders of RIS received $4,500,000 and 90,000 shares of the Corporation's common stock, valued at $1,607,000. These shares are being held in escrow by the Corporation until April 9, 2000.

On October 24, 1997, the Corporation completed the acquisition of Interweave Software, Inc. (Interweave) of Santa Clara, California, U.S.A. Interweave was the developer and marketer of the Interweave software product line, which allows information technology organizations to deploy intranet- and extranet-based business intelligence applications more broadly within and across enterprises. The acquisition agreement called for the Corporation to pay $12,415,000 to the shareholders of Interweave, most of which was paid upon completion of the acquisition

Both acquisitions have been accounted for using the purchase method. The results of operations of both acquired companies prior to the acquisitions were not material, and thus pro forma information has not been provided. The results of both acquired companies have been combined with those of the Corporation since their respective dates of acquisition.

Total consideration, including acquisition costs, was allocated based on estimated fair values on the acquisition date: ($000s)

	RIS	Interweave	Total
Assets acquired			
Purchased technology	$ 7,143	$21,867	$29,010
Other assets	239	390	629
	7,382	22,257	29,639
Liabilities assumed	(1,050)	(4,544)	(5,594)
Deferred tax credits	(2,143)	(8,867)	(11,010)
Net assets acquired	4,189	8,846	13,035
Goodwill	1,918	3,569	5,487
Purchase price	$ 6,107	$12,415	$18,522
Consideration			
Cash	$ 4,500	$12,415	$16,915
Shares	1,607	–	1,607
	$ 6,107	$12,415	$18,522

6. LONG-TERM DEBT ($000S)

	1998	1997
Mortgage at 12.5% per annum, repayable in blended monthly installments of principal and interest of Cdn $45,200 to October 2000	**$2,383**	$2,571
Other	**74**	84
	2,457	2,655
Less current portion	**(124)**	(175)
	$2,333	$2,480

Interest expense on long-term debt was $301,000, $320,000, and $327,000 in fiscal 1998, 1997, and 1996, respectively.

Scheduled aggregate annual payments of long-term debt are $381,000 in each of fiscal 1999 and fiscal 2000, and $2,354,000 in fiscal 2001.

7. COMMITMENTS

The Corporation's offices, certain computer equipment, and some vehicles are leased under various terms. The annual aggregate lease expense in each of fiscal 1998, 1997, and 1996 was $8,599,000, $7,455,000, and $6,667,000, respectively.

The aggregate amount of payments for these capital and operating leases in each of the next five fiscal years and thereafter, is approximately as follows: ($000s)

1999	$7,995
2000	5,503
2001	4,421
2002	1,949
2003	1,576
Thereafter	7,795

8. Financial Instruments

Off-Balance-Sheet Risk

The Corporation's policy with respect to foreign currency exposure is to manage its financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. To achieve this objective, the Corporation enters into foreign exchange forward contracts to hedge certain non-local currency receivables and payables, and to hedge portions of the net investment in its various subsidiaries. As a result, the exchange gains and losses recorded on translation of the subsidiaries' financial statements are partially offset by the gains and losses attributable to the applicable foreign exchange forward contracts. Realized and unrealized gains and losses from the applicable foreign exchange forward contracts are recorded as part of the Cumulative Translation Adjustment included in Stockholders' Equity. The Corporation has foreign exchange conversion facilities that allow it to hold foreign exchange contracts of approximately Cdn $130,000,000 (US $91,324,000) outstanding at any one time. The Corporation enters into foreign exchange forward contracts with major Canadian chartered banks, and therefore does not anticipate non-performance by these counterparties. The amount of the exposure on account of any non-performance is restricted to the unrealized gains in such contracts. As of February 28, 1998, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 26, 1998 to April 30, 1998, to exchange various foreign currencies in the amount of $2,173,000. As of February 28, 1997, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 27, 1997 to February 28, 1998, to exchange various foreign currencies in the amount of $2,245,000.

Concentration of Credit Risk

The investment of surplus cash is regulated by the Corporation's investment policy, which is periodically reviewed and approved by the Audit Committee of the Board of Directors. The primary objective of the Corporation's investment policy is security of principal. The Corporation manages its investment credit risk through a combination of (i) limitation on the grade of securities; (ii) selection of term to maturity, which in no event exceeds one year in length; and (iii) diversification of debt issuers, both individually and by industry grouping.

Included in cash and cash equivalents as of February 28, 1998 and February 28, 1997 were corporate debt amounts of $47,000,000 and $42,954,000, respectively, which represented the Corporation's primary investment credit risk with a single issuer. These amounts were repaid, in full, at maturity in March of their respective years. All the Corporation's short-term investments as of February 28, 1998 and February 28, 1997 had maturity dates before the end of April 1998 and May 1997, respectively. The Corporations short-term investments are denominated in either Canadian or U.S. dollars.

The Corporation has arranged an unsecured credit facility that includes an operating line and foreign exchange conversion facilities. The operating line permits the Corporation to borrow funds or issue letters of credit or guarantee up to an aggregate of Cdn$15,000,000 (US$10,537,000), subject to certain covenants. As of February 28, 1998 and February 28, 1997, there were no direct borrowings under this operating line.

The Corporation operates internationally in one business segment. The Corporation develops, markets, and supports computer software tools for data access, exploring, reporting, and analysis, and for application development on a wide range of open and proprietary platforms. The Corporation markets and supports these products both directly and through resellers worldwide. The Corporation is not dependent on any single customer or group of customers, or supplier.

There is no concentration of credit risk related to the Corporation's position in trade accounts receivable. Credit risk, with respect to trade receivables, is minimized because of the Corporation's large customer base and its geographical dispersion (see Note 12).

Fair Value of Financial Instruments

For certain of the Corporation's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and other accrued charges, the carrying amounts approximate the fair value due to their short maturities. The carrying value of long-term debt approximates the fair value.

9. INCOME TAXES

In fiscal 1998, the Corporation adopted the new CICA Handbook section, *Income Taxes,* Section 3465. Previously, the Corporation followed the tax allocation basis using the deferral method. The prior periods were not restated as the application of the new method did not result in any material changes for the Corporation.

Details of the income tax provision are as follows: ($000s)

	1998	1997	1996
Current			
Canadian	**$ 8,755**	$ 4,543	$ 822
Foreign	**8,550**	8,150	1,970
	17,305	12,693	2,792
Deferred			
Canadian	**4,163**	3,117	3,270
Foreign	**(1,830)**	(3,102)	(66)
	2,333	15	3,204
Income tax provision	**$19,638**	$12,708	$5,996

The reported income tax provision differs from the amount computed by applying the Canadian rate to income before income taxes. The reasons for this difference and the related tax effects are as follows: ($000s)

	1998	1997	1996
Expected Canadian tax rate	**44.0%**	44.0%	44.0%
Expected tax provision	**$29,279**	$21,779	$10,351
Foreign tax rate differences	**(8,740)**	(4,669)	(2,840)
Losses not recognized	**–**	606	1,087
Recognition of income tax benefits	**(4,581)**	(4,572)	(3,837)
Non-deductible expenses and non-taxable income	**361**	(1,138)	707
Withholding tax on foreign royalties	**822**	509	461
Reorganization costs	**2,426**	–	–
Other	**71**	193	67
Reported income tax provision	**$19,638**	$12,708	$ 5,996

Deferred income taxes result principally from temporary differences in the recognition of certain revenue and expense items for financial and tax reporting purposes. Significant components of the Corporation's deferred tax assets and liabilities as of February 28, 1998 and February 28, 1997 are as follows: (000s)

	1998	1997
Deferred tax assets		
Net operating tax loss carryforwards	**$ 7,190**	$ 9,241
Investment tax credits	**8,637**	10,118
Deferred revenue	**3,083**	2,584
Research and development expenses	**–**	3,337
Other	**1,416**	1,406
Total deferred tax assets	**20,326**	26,686
Valuation allowance for deferred tax assets	**(12,816)**	(23,432)
Net deferred tax assets	**7,510**	3,254
Deferred tax liabilities		
Book and tax differences on assets	**(505)**	12
Reserves and allowances	**8,696**	7,898
Research and development expenses	**908**	–
Acquisitions	**9,755**	–
Income tax credits	**3,254**	–
Other	**156**	14
Total deferred tax liabilities	**22,264**	7,924
Net deferred income tax liability	**$ 14,754**	$ 4,670

The net change in the total valuation allowance for the years ended February 28, 1998 and February 28, 1997 was a decrease of $10,616,000 and $57,000, respectively.

Realization of the net deferred tax assets is dependent on generating sufficient taxable income in certain legal entities. Although realization is not assured, management believes it is more likely than not that the

net amount of the future tax asset will be realized. However, this estimate could change in the near term as future taxable income in these certain legal entities changes.

As of February 28, 1998, the Corporation had tax loss carryforwards of approximately $20,331,000 available to reduce future years' income for tax purposes. These losses expire as follows: ($000s)

1999	$ 1,370
2000	592
2001	1,309
2002	2,867
2003	2,868
Indefinitely	11,325
Total	$20,331

Income before taxes attributable to all foreign operations was $35,102,000, $30,210,000, and $15,297,000, in each of fiscal 1998, 1997, and 1996, respectively.

The Corporation has provided for foreign withholding taxes on the portion of the undistributed earnings of foreign subsidiaries expected to be remitted.

Income taxes paid were $11,273,000, $5,119,000, and $2,165,000 in each of fiscal 1998, 1997, and 1996, respectively.

10. STOCKHOLDERS' EQUITY

Capital Stock

The authorized capital of the Corporation consists of an unlimited number of common shares, without nominal or par value, and an unlimited number of preferred shares, issuable in series. No series of preferred shares has been created or issued.

Share Repurchase Programs

The share repurchases that were made in fiscal 1998 and fiscal 1997 were part of two distinct open market share repurchase programs through the Nasdaq National Market: the July 1996 program which was in effect until July 30, 1997 and a similar program that was announced in October 1997.

The October 1997 program will enable the Corporation to purchase up to 2,200,000 common shares (not more than 5% of those issued and outstanding) between October 7, 1997 and October 6, 1998. This program does not commit the Corporation to make any share repurchases. Purchases will be made on the Nasdaq National Market at prevailing open market prices and paid out of general corporate funds. All repurchased shares will be cancelled.

The details of the share repurchases under the two programs were as follows:

	1998		1997	
	Shares (000s)	**Cost ($000s)**	Shares (000s)	Cost ($000s)
July 1996 program	**85**	**$ 1,931**	292	$6,796
October 1997 program	**1,185**	**27,180**	–	–
	1,270	**$29,111**	292	$6,796

The amount paid to acquire the shares over and above the average carrying value has been charged to retained earnings.

Shareholder Rights Plan
The Corporation has adopted a Shareholder Rights Plan ("Rights Plan") to ensure that any takeover bid made for the shares of the Corporation would be made to all shareholders, treat all shareholders fairly and equally, and provide the Board of Directors with sufficient time to consider any such offer. The Rights Plan was ratified at the Annual and Special Meeting of Shareholders held on June 23, 1994. The Rights Plan grants shareholders the right to acquire, under certain circumstances, additional common shares (within a specified dollar maximum) at a 50% discount from its then current market price. The Corporation, at its option, may redeem each right at a nominal price or waive application of the Rights Plan. The Rights Plan, and any rights issued under it, will expire on December 7, 1998.

Stock Option Plans
As of February 28, 1998, the Corporation had stock options outstanding under two plans: 121,000 pertain to the 1997–2002 Stock Option Plan and 3,165,000 pertain to the 1993–1998 Stock Option Plan.

There were 7,000,000 shares of common stock originally reserved by the Board of Directors for issuance under the Corporation's 1997–2002 Stock Option Plan ("the Plan"), which was approved by the Corporation's shareholders in June 1997 and replaced the 1993–1998 Stock Option Plan. Options may be granted to directors, officers, employees, and consultants at such times and under such terms as established by the Plan. Options may be fully exercisable on the date of grant or may be exercisable in installments. Options will expire not later than 10 years from the date of grant or any shorter period as may be determined. All options are priced at the market price of the Corporation's shares on The Toronto Stock Exchange on the trading day preceding the date of grant. There were 6,879,000 options available for grant under the Plan as of February 28, 1998.

Under the 1993–1998 Stock Option Plan, options were awarded to directors, officers and employees. For the options outstanding as of February 28, 1998, the vesting dates range from April 1996 to April 2001 and the expiry dates range from March 1998 to April 2005. In April 1996, options were awarded to certain key officers under an executive option award. These options vest equally in April 1999, April 2000, and April 2001, and expire in April 2003. All options were priced at the market price of the Corporation's shares on The Toronto Stock Exchange on the trading day preceding the date of grant. The 1993–1998 Stock Option Plan expired on January 1, 1998. No further grants may be made under this plan.

Employee Stock Purchase Plan

This plan was approved by the Corporation's shareholders in July 1993 and will terminate on November 30, 1999. All full-time and part-time permanent employees may participate in the plan.

Accounting for Stock-Based Compensation

Under Canadian GAAP, the Corporation did not recognize compensation costs in its consolidated financial statements for its stock option and purchase plans. If the fair values of the options granted in fiscal 1998, 1997, and 1996 had been recognized as compensation expense on a straight line basis over the vesting period of the grant (consistent with the method prescribed by Financial Accounting Standards Board Statement No. 123, *Accounting and Disclosure of Stock-Based Compensation*), stock-based compensation costs would have reduced net income by $6,824,000, $4,757,000, and $1,534,000; net income per share by $0.15, $0.11, and $0.04; and fully diluted net income per share by $0.14, $0.10, and $0.03 in fiscal 1998, 1997, and 1996, respectively.

Because the Corporation has only applied these measurement principles to options granted subsequent to February 28, 1995, the above pro forma disclosure is not indicative of pro forma amounts that will be reported in future years. It is expected that all nonvested awards will be included in the pro forma disclosure in fiscal 1999.

The fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for fiscal 1998, 1997, and 1996, respectively: risk-free interest rates of 6.5%, 6.2%, and 6.4%; expected life of the options of 3.0 years, 3.8 years, and 2.4 years; expected volatility of 56%, 45%, and 45%; and for all years, a dividend yield of zero.

Activity in the stock option plans for fiscal 1998, 1997, and 1996 was as follows:

	1998		1997		1996	
	Options (000s)	**Weighted Average Exercise Price**	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding, beginning of year	**3,970**	**$10.67**	4,094	$ 4.62	4,820	$ 3.02
Granted	**1,095**	**22.95**	1,594	18.88	1,297	7.76
Exercised	**(1,658)**	**5.19**	(1,590)	3.41	(1,873)	2.20
Cancelled	**(121)**	**19.08**	(128)	8.36	(150)	3.39
Outstanding, end of year	**3,286**	**16.57**	3,970	10.67	4,094	4.62
Options exercisable at year end	**539**		1,185		807	
Weighted average per share fair value of options granted during the year calculated using the Black-Scholes option pricing model		**$ 9.67**		$ 7.69		$2.51

The following table summarizes significant ranges of outstanding and exercisable options as of February 28, 1998:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options (000s)	Weighted Average Remaining Life	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
$ 3.21 to $12.00	815	1.7 years	$ 6.81	429	$ 5.90
$18.00 to $20.00	1,435	6.0	18.85	90	18.85
$21.00 to $32.23	1,036	7.2	22.88	20	25.20
	3,286		16.57	539	8.79

Net Income per Share

Net income per share is based on the weighted average number of shares outstanding during each year.

The reconciliation of the numerator and denominator for the calculation of net income per share and fully diluted net income per share is as follows: (000s, except per share amounts)

	1998	1997	1996
Net Income per Share			
Net income	**$48,942**	$36,789	$17,530
Weighted average number of shares outstanding	**44,207**	43,149	41,289
Net income per share	**$1.11**	$0.85	$0.42
Fully Diluted Net Income per Share			
Net income	**$48,942**	$36,789	$17,530
Imputed interest	**2,719**	2,098	867
Adjusted net income	**$51,661**	$38,887	$18,397
Weighted average number of shares outstanding	**44,207**	43,149	41,289
Dilutive effect of stock options	**3,834**	4,546	3,924
Adjusted weighted average number of shares outstanding	**48,041**	47,695	45,213
Fully diluted net income per share	**$1.08**	$0.82	$0.41

Imputed earnings on the proceeds from the exercise of options are calculated using a 5% after-tax rate of return.

11. Pension Plans

In fiscal 1997, the Corporation introduced a company-sponsored Retirement Savings Plan for the parent company; participation in the Plan is optional. The Corporation also operates various other defined contribution pension plans. The Corporation contributes amounts related to the level of employee contributions for both types of plans.

The pension costs in fiscal 1998, 1997, and 1996 were $2,327,000, $1,958,000, and $983,000, respectively.

12. Segmented Information

In September 1997, the CICA issued Section 1701, *Segment Disclosures,* that supersedes Section 1700, *Segmented Information.* The new section is effective for fiscal years beginning on or after January 1, 1998. The Corporation adopted the new standards in the current fiscal year and restated all prior periods.

The Corporation has one reportable segment—computer software tools. The Corporation develops, markets, and supports two complementary lines of software tools that are designed to satisfy enterprise-wide business-critical needs. The Corporation's business intelligence tools give individual users the ability to independently access, explore, analyze, and report corporate data. The Corporation's client/server application development tools are designed to increase the productivity of system analysts and developers. Cognos products are distributed both directly and through resellers worldwide.

Revenue is derived from the licensing of software and the provision of related services, which include product support and training, consulting, and other services. The Corporation generally licenses software and provides services subject to terms and conditions consistent with industry standards. Customers may elect to contract with the Corporation for product support, which includes product and documentation enhancements, as well as telephone support, by paying either an annual fee or fees based on usage of support services.

The Corporation operates internationally, with a substantial portion of its business conducted in foreign currencies. Accordingly, the Corporation's results are affected by year-over-year exchange rate fluctuations of the United States dollar relative to the Canadian dollar, to various European currencies, and to a lesser extent, other foreign currencies.

No single customer accounted for 10% or more of the Corporation's revenue during any of the last three fiscal years. In addition, the Corporation is not dependent on any single customer or group of customers, or supplier.

The accounting policies for the segment are the same as those described in the Summary of Significant Accounting Policies. The required financial information for segment profit and segment assets is the same as that presented in the Consolidated Financial Statements. Geographic information is as follows: ($000s)

	1998	1997	1996
Revenue from external customers*			
Canada	**$ 19,226**	$ 17,139	$ 14,426
U.S.A.	**124,784**	95,190	70,764
United Kingdom	**43,330**	38,796	30,753
Europe	**40,129**	33,428	27,400
Other countries	**17,365**	13,632	8,843
	$244,834	$198,185	$152,186

* Revenues are attributed to countries based on location of customer

	1998	1997
Long-lived assets		
Canada	**$19,250**	$11,841
U.S.A.	**28,595**	3,409
Other countries	**3,702**	4,085
	$51,547	$19,335

13. LITIGATION

On December 18, 1997, a class action lawsuit was filed in the United States Federal District Court for the Eastern District of New York against the Corporation and certain of the Corporation's directors and officers purportedly on behalf of purchasers of the Corporation's common stock during the period June 3, 1997 to September 25, 1997. The complaint alleges, among other things, that the defendants made misstatements to the investing public about the Corporation's products and prospects. The complaint seeks unspecified damages and costs, including reasonable attorneys' fees. A second complaint, also purportedly on behalf of purchasers of the Corporation's common stock during the same class period, was filed on February 11, 1998 in the same court, against the same defendants, containing all the same material allegations. It is anticipated that these actions will be consolidated. The Corporation believes that the complaints are without merit and intends to vigorously contest them. As these actions are at a preliminary stage, the Corporation cannot estimate the financial impact, if any, at this time. In addition, the Corporation and its subsidiaries are involved in other legal proceedings, claims, and litigation that arise in the ordinary course of business ("claims"). Based on the facts currently available, the Corporation believes that none of these claims could reasonably be expected to have a material adverse effect on the financial condition of the Corporation.

14. NEW ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board recently issued new accounting standards regarding the reporting of comprehensive income, which the Corporation will adopt in fiscal 1999. Comprehensive income is comprised of net income and all other changes in stockholders' equity that do not result from transactions with owners. These changes include adjustments to the cumulative foreign currency

translation adjustment account and certain changes in the fair value of securities carried on that basis in the accounts.

15. Comparative Results

Certain of the prior years' figures have been reclassified in order to conform to the presentation adopted in the current year.

SELECTED CONSOLIDATED FINANCIAL DATA

Five-Year Summary

The following Selected Consolidated Financial Data has been derived from the Corporation's consolidated financial statements that have been audited by Ernst & Young, independent chartered accountants. The Selected Consolidated Financial Data should be read in conjunction with the Consolidated Financial Statements and related Notes, and with Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Years Ended the Last Day of February				
	1998	1997	1996	1995	1994
	(US$000s except share amounts, Canadian GAAP)				
Statement of Income Data					
Revenue	**$244,834**	$198,185	$152,186	$121,817	$114,832
Operating expenses					
Cost of product license	**3,828**	3,266	3,433	3,391	4,275
Cost of product support	**9,694**	9,634	7,488	8,066	6,509
Selling, general, and administrative	**143,493**	114,617	98,908	84,342	84,490
Research and development	**33,530**	28,951	22,382	16,235	14,460
Investment tax credits	**(9,432)**	(3,683)	–	–	–
Restructuring charges	**–**	–	–	–	1,159
Total operating expenses	**181,113**	152,785	132,211	112,034	110,893
Operating income	**63,721**	45,400	19,975	9,783	3,939
Interest expense	**(481)**	(427)	(468)	(438)	(475)
Interest income	**5,340**	4,524	4,019	2,224	1,577
Income before taxes	**68,580**	49,497	23,526	11,569	5,041
Income tax provision	**19,638**	12,708	5,996	3,360	2,030
Net income	**$ 48,942**	$ 36,789	$ 17,530	$ 8,209	$ 3,011
Net income per share (1)					
Basic	**$1.11**	$0.85	$0.42	$0.21	$0.08
Diluted	**$1.08**	$0.82	$0.41	$0.20	$0.07
Weighted average number of shares (000s) (1)					
Basic	**44,207**	43,149	41,289	39,558	38,448
Diluted	**48,041**	47,695	45,213	43,992	44,544

(1) Reflects the effect of a three-for-one stock split in fiscal 1997. All historic share and per share amounts have been restated. See Note 10 of the Notes to the Consolidated Financial Statements.

Balance Sheet Data (at end of period)	1998	1997	1996	1995	1994
Working capital	**$ 112,846**	$ 103,727	$ 66,149	$ 38,376	$ 27,971
Total assets	**245,718**	189,152	140,010	108,174	93,273
Total debt	**2,457**	2,655	2,744	2,823	2,974
Stockholders' equity	**147,305**	115,912	78,297	55,156	45,249